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Here's why the Dow will hit 40,000 by 2025

- The Dow Jones need only rise 6.75 percent (not including dividends) annually — less than the postwar average of 7.2 percent — to hit 40,000 by December 2025.
- All economic indicators point north, with consumer and small-business owner confidence, as well as corporate spending, still on the rise.
- Making judicious equity investments now makes a lot of sense for investors willing and able to let their money ride for the long term.

While some advisors are optimistic that the bull market will continue, others are preparing investors for what they see as its imminent end. These advisors say that, as the current bull is now the second-longest ever, the odds are overwhelming that it will soon be growing bear fur.
I am, however, very confident and see a bright economic and market future ahead. I believe the current bull is likely to continue galloping for years to come, pushing the Dow Jones Industrial Average above 40,000 by 2025.

First, let's be clear: The current bull hasn't been running as long as most people think. The popular belief that the current bull started in March 2009 is contradicted by the more than 20 percent dips in many indices that occurred between 2015 and Feb. 11, 2016 — arguably, the actual start of a new bull market, after the one that started in 2009 had run out of gas, according to data from Ned Davis Research. (Under criteria from Davis, there have been 37 bull markets since 1900, with an average length of 25 months.) So if you're a member of the how-long-can-it-go club, be duly apprised: This bull market hasn't really run that long.
Pessimistic professionals speak in doomsday tones to the accepting ears of investors whose wounds from the financial crisis still haven't healed. These people remain fearful of a repeat of the financial crisis of 2008, so talking about signs that economic growth will probably continue for years rubs salt in their wounds. Think back to the fall of 2014, when some advisors (myself among them, in a published article) predicted that the Dow would hit 20,000 by the end of 2015.

Until this prediction came true, many regarded it as the audacious predicting the outrageous. Well, Dow 40,000 by 2025 is actually no less outrageous. Some might call it irrational exuberance. But for some undeniably valid economic reasons, this view may not even be exuberant — just rational.

Amid all the headlines about the U.S. economy's current robust state, it's easy to lose sight of three things:

1. How badly the economy was brutalized by the Great Recession, the deepest in U.S. history. Looking back, some economists have said that it was a gnat's whisker away from being a depression. Nerdy technical measures aside, it was just plain bad.

2. Though the economy has since come a long way, preceded and then accompanied by strong stock market growth, it still has a long way to go to resemble any kind of historical normalcy. Amid the din of ballyhooing about the "new normal," it's important to remember that economic history repeats itself or, at least, rhymes.
3. Just how little a stock market propelled by the economy's continuation of this journey would have to grow above current levels for the DJIA to reach 40,000. To get there by December of 2025, the index price needs to rise only 6.75 percent (not including dividends) annually — less than the postwar average of 7.2 percent.

These factors demonstrate the jumping-off point for economic growth driving market gains:

High, unmet residual demand for housing. The U.S. economy perennially relies on housing construction, a stimulus fueled by annual demand for about 1.5 million new housing starts. Since 2009, there have been about 8.5 million starts — some 5.5 million short of the 13.5 million needed for that period. Pent-up demand is still releasing as Gen Xers move out of their parents' basements and families seeking to buy rather than rent (and Gen Y folks move into their apartments). And even as this demand is satisfied, we'll still need another 1.5 million starts each year to keep up with trend demand.

Leading economic indicators that continue to point north. These indicators usually start declining several months before a recession. There's little reason to believe that the upward trend through May will reverse, considering the slow but steady progress of the recovery thus far.

Rising consumer confidence. The University of Michigan's gauge of consumer sentiment — which measures views of personal financial wherewithal against the favorability of conditions for buying durable goods — increased to 99.3 in June of 2018 from 98 in May, exceeding market expectations of 98.5 — the highest in three months in a year marked by far more positive sentiment measurements than in 2017. This sentiment is expected to remain high amid declines in unemployment.

Strong current and projected corporate capital spending. The late 2017 tax cut continues to fuel high levels of corporate investment and potential growth. In mid-June, the Atlanta Fed's GDPNow model, which weighs various current gross domestic product components, predicted 4.6 percent national GPD growth for this quarter. And first-quarter corporate capital spending rose 21 percent year-over-year, on track to be the highest year-over-year growth since 2011. These historically high numbers are expected to rise for the year as companies execute spending plans now under development.

Increasing optimism among small-business owners, who create most new jobs. The Small Business Optimism Index increased in May to the second-highest level in the 45-year history of the organization that measures it, the National Federation of Independent Business. The index rose to 107.8, a three-point gain, as small businesses reported high numbers in compensation, profits, sales trends and other key areas.

"Main Street optimism is on a stratospheric trajectory thanks to recent tax cuts and regulatory changes," said NFIB President and CEO Juanita Duggan. "For years, owners have continuously signaled that when taxes and regulations ease, earnings and employee compensation increase.

Unfolding tech advances. Technological developments in artificial intelligence, nanotechnology, advances in genetic engineering and medicine and supercomputers (and quantum computers, if they're developed soon enough) will likely have an impact over the next few years. Eventual commercialization in these areas, which promises to be colossally profitable, will turbo-charge the already high-RPM economic engine we call Silicon Valley, driving national growth.

In many ways, the recovery has been pokey. This will likely draw it out longer, boding well for the next few years.

Warren Buffett, chairman and CEO of Berkshire Hathaway, recently said the recovery now is only in its sixth inning, and “the sluggers are coming to bat.” But he added that this doesn’t mean it’s a good time to buy stocks.

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My firm did a long-term analysis of S&P 500 growth, examining rolling 3-, 5-, 10- and 20-year periods from 1945 to the present. We then applied these same multipliers to current S&P 500 performance, taking averages forward for the same intervals. When applied to the current DJIA, whose 30 constituent stocks bear much resemblance to the average member of the S&P 500, these multipliers project a Dow of 41,750 at the end of 2025.

If you think this level is far-fetched, think back to all the times the market rose to new heights that had widely been considered unlikely. Now think again.