

Long way from dog days



The Associated Press

Trader Salvatore Suarino, left, works on the floor of the New York Stock Exchange.

2011 might see record Dow

Dow soars 76% in past 21 months

By Stan Choe

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NEW YORK — Could the Dow set a record high next year?

That question would have seemed crazy early last year when fear and panic enveloped the stock market and the Dow Jones industrial average plunged to 6,547 on March 9. Many inves-

tors thought it would take a decade or longer to get back to the record of 14,165, set on Oct. 9, 2007.

Now we could be on the verge. The Dow has soared 76 percent the past 21 months, and it would have to climb just 23 percent from Thursday's close of 11,499 to set a record.

That's a big jump, but the Dow has risen 23 percent or more six times since 1985, or roughly 1 in 4 years. Two other years, the Dow just missed with a gain of 22.6 percent. Add them and the number becomes eight years out of 25, or roughly 1 in 3.

Many analysts don't expect a 23 percent gain

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DOW

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in 2011, but they agree conditions are in place for the rally to continue.

"There are some really compelling reasons out there that say the Dow could approach its highs," says Randy Bateman, chief investment officer for Huntington Asset Advisors. "You've got a fairly rosy scenario, where there isn't a whole lot of competition for stocks."

Corporate bonds provide decent income but lack the potential of stocks to appreciate. Interest rates on cash investments, such as bank CDs and money market mutual funds, remain in the basement. Meanwhile, corporate earnings keep rising, which makes stocks more appealing. Companies also are sitting on a record amount of cash, giving them leeway to pay bigger dividends, buy their

own stock or buy competitors.

The economy could help, too. The Great Recession ended in June of last year, so this economic expansion is only one and a half years old. Expansions since World War II have lasted an average of nearly five years. The Dow doesn't always rise the year a recovery marks its second anniversary. But the last time it did so, in 2003, the Dow jumped 25 percent. This expansion has been fitful so far. If it finally gains traction next year, stocks could do well.

The Dow has already had a good run this year. It's up 10 percent despite serious problems lingering in the economy, including a 9.8 percent unemployment rate and a weak housing market. Part of the reason is that stock investors focus more on what's ahead than what's happening now. They believe the economy will continue to heal next year and companies will keep earning more money.

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On Friday, investors got the latest sign that the economy is on the mend. The Conference Board's index of leading economic indicators rose last month at the fastest pace since March.

Here's a look at how the Dow made a leap of more than 23 percent six times the past 25 years:

■ 1985. A third straight year of strong economic growth — GDP grew 4.1 percent — after a deep recession had ended in November 1982 fueled a 28 percent gain in the Dow. The inflation rate remained stable a fourth straight year, convincing many investors that the inflation monster of the late 1970s had been slain.

■ 1989. Mergers and acquisitions, including takeovers by corporate raiders,

helped push the Dow up 27 percent. Kohlberg Kravis Roberts & Co.'s purchase of RJR Nabisco was the largest corporate deal the country had seen. In August, the Dow regained the level it had reached in August 1987, two months before that year's "Black Monday" crash.

■ 1995. The Dow jumped 33 percent as what would become the longest economic expansion in U.S. history powered through its fifth year. And more Americans were putting money into stocks through 401(k) accounts. The number of households owning stocks jumped to 41 percent, up from 37 percent in 1992 and 32 percent in 1989, according to the Federal Reserve.

■ 1996. The Dow rose another 26 percent as the

lowed one of the strong years above as strong economic conditions continued.

Many analysts expect corporate profits will keep rising — and stock prices with them — but not at a rate that would send the Dow past 14,000 next year. Bank of America Merrill Lynch, for example, expects earnings per share for the big companies in the Standard & Poor's 500 index to rise 9 percent in 2011 and 6 percent in 2012. It sees the S&P rising 13 percent in 2011 from Thursday's close.

"Nothing's impossible, but it's not real probable," says Bob Millen, a portfolio manager of the Jensen Portfolio mutual fund.

Even Huntington's Bateman, who says the Dow could reach a record in 2011, warns stocks may not stay that high for long. Larger government deficits, he says, could drive stock prices lower in 2012 or 2013.

economy continued strong. Stocks gained so much that Federal Reserve Chairman Alan Greenspan asked in a speech in December whether "irrational exuberance has unduly escalated asset values."

■ 1999. Strong corporate profits and excitement about the Internet pushed the Dow up 25 percent. Earnings per share for the companies in the S&P 500 index jumped 28 percent, the strongest growth since 1994.

■ 2003. The Dow rose 25 percent as the economy enjoyed its second year of recovery after the 2001 recession. The Federal Reserve cut short-term interest rates as low as 1 percent to encourage growth.

The two years the Dow rose 22.6 percent were 1986 and 1997. Each fol-

in 2011, but they agree conditions are in place for the rally to continue.

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