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Experts say bull has room

Stock indexes end year with double-digit gains but took investors on a roller-coaster ride

By David K. Randall
The Associated Press

NEW YORK — For investors, 2010 was a 12-month tug of war between optimism and doubt. Stocks initially strengthened, the job market didn't, and fears of economic collapse in Europe and a chilling "flash crash" left many investors almost too stunned to act.

The year ended with stock markets at their highest level since the 2008 financial crisis on signs of an improving economy. But those same signs are producing worrisome side effects: Interest rates are rising, gold now tops $1,400 an ounce, and oil prices, poised to exceed $100 a barrel, could send pump prices to $4 a gallon.

None of that seemed possible in the spring when many investors became convinced the economy would fall back into recession. Then, the mood shifted.

Reports started to show the economy was gaining some strength. Corporate profits surged. Federal Reserve Chairman Ben Bernanke signaled the central bank was ready to pump hundreds of billions of dollars into the economy to stimulate demand.

By the close of trading Friday, double-dip recession fears seemed like distant memories.

Whether the gains will continue into 2011 will depend in part on how fast the unemployment rate, now at 9.8 percent, drops. That will, in turn, be driven by how likely consumers are to increase spending and how likely corporations are to spend the more than $1 trillion on their balance sheets.

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Many on Wall Street are optimistic that the bull market won't end in 2011. "All of the economic indicators are pointing to stronger growth next year," said Peter Cardillo, chief market economist at New York-based brokerage firm Avalon Partners Inc.

Friday, in light trading, the Dow rose 7.8 points to 11,577.5. The S&P 500 fell less than a point to 1,257.64. The Nasdaq composite fell 10.1 to 2,652.87.

For the year, each index returned double-digit gains.

■ The Dow gained 1,149.46

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points, or 11 percent. With dividends, its 1 return was 13.99 percent.

■ The S&P 500 index gained 142.54 points, or 12.8 percent. Including dividends, its total return came to 15.1 percent.

■ And the Nasdaq index gained 383.72, or 16.9 percent, to close at 2,652.87. After dividends, its total return came to 18 percent.

In other markets:

■ Oil prices ended the year above $91 a barrel after surging 34 percent since May. That could push gasoline to $4 a gallon by summer in some parts of the country, experts say.

■ Gold topped $1,420 an ounce, up 31 percent for the year. Grains and soybean prices also ended the year sharply higher. The reason: China's seemingly insatiable demand.

■ The yield on the 10-year Treasury note ended the year at 3.29 percent. That's low by historical standards, but up from early October's 2.38 percent, which helped push mortgage rates to 50-year lows.

■ Economists are predicting the dollar will fare better in the new year after against the euro and Japanese yen in 2010.

For stock investors, the numbers mask the fact that it was a rocky year. The Dow reached 11,205 and the S&P 500 reached 1,217 in late April, then took a thrill ride downward after it became clear that Greece required an emergency bailout to deal with its debt crisis and fears of a double-dip U.S. recession grew.

Then came what came to be known as the "flash crash" on May 6. The Dow, already down about 400 points on worries about Europe, dropped 600 points in seven minutes. It rebounded 700, then fluctuated before closing with a loss of 347. The sudden drop was later attributed to a fund company that used a complex computer trading program. It had a profound effect on individual investors.

"The flash crash made retail investors take a step back and say, 'Is this really just a legalized gambling arena?'", said Scott Rostan, a financial consultant and an adjunct professor at the University of North Carolina, Chapel Hill.

Stocks stayed in a funk through the early summer as economic reports kept pointing to an uncertain recovery. By July 2, the Dow bottomed out at 9,686.48.

Then the mood began to change.