Few called market turn, fewer predict it will last

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NEW YORK — Few analysts forecast this year's remarkable stock market rebound as major indexes were plunging to 12-year lows last March. Now, with most experts predicting the pace of stocks' gains will slow in 2010, there's reason to believe they will be proven correct.

Stocks began the dramatic turnaround in March after Citigroup Inc. and other big banks said they were making money again, and then climbed at a fairly steady pace as signs of an economic recovery from the Great Recession became more pronounced.

Investor fears about a potential financial system collapse played a big role in the early year slump in stocks. Once it was clear that wasn't going to happen, the Standard & Poor's 500 index roared back 64.8 percent from its early March low, the biggest move since the Depression. For the full year, the index rose 23.5 percent, it's best showing since 2003.

But sustaining that momentum in the new year likely would require a big drop in the unemployment rate and strong corporate profit gains, along with stable borrowing costs — a combination few analysts are forecasting.

"The easy money has been made already," said Bill Stone, chief investment strategist for PNC Wealth Management. "You're not going to see another 65 percent move in the next nine months."

In the last day of the year, more signs of healing first pleased investors, then had them concerned about the economy's ability to thrive without government help. Light trading volume exaggerated the market's moves, sending the Dow Jones industrial average down 120.46, or 1.1 percent, to 10,428.05.

The year's stats tell an incredible story across the financial markets:

— By March, the Dow Jones industrials had tumbled 53.8 percent from a record high in October 2007 to a low of 6,547.05, its lowest level since 1997. It then rocketed 59.3 percent in the final nine months of the year . The Dow is still down 26.4 percent from its 2007 peak of 14,164.53.

— U.S. stocks have gained about $5.2 trillion in value since the low in March, putting the gain for the year at $2.6 trillion. But the climb was still not enough to give investors a win for the decade. The S&P fell 24.1 percent from 2000-09, its first loss for a decade. S&P says it managed to advance during the Depression thanks to dividend payments.

— A share of Citigroup Inc., one of the banks hit hardest by the 2008 financial crisis and the recession, reached a high early in the year of $7.59, then fell to 97 cents in March. It ended the year at $3.31.

— Technology and financial stocks posted some of the biggest gains in market value in 2009. Among them: Apple Inc., Microsoft Corp., Google Inc., Bank of America Corp. and IBM Corp.

— Stock mutual funds are valued at about $4.6 trillion, up from $4.04 trillion at the beginning of the decade.

— The Chicago Board Options Exchange's Volatility Index, known as the market's fear index and a measure of investor worry, is down 45.8 percent for the year, and also down about 76 percent from its high of about 89, reached at the height of the financial crisis in the fall of 2008. It ended 2009 at 21.68.

— The yield on the 10-year Treasury note, used as a benchmark for interest rates on mortgages and other consumer loans, stands at 3.84 percent, up from 2.22 percent a year ago. Investors are no longer fleeing to the safety of U.S. government debt.

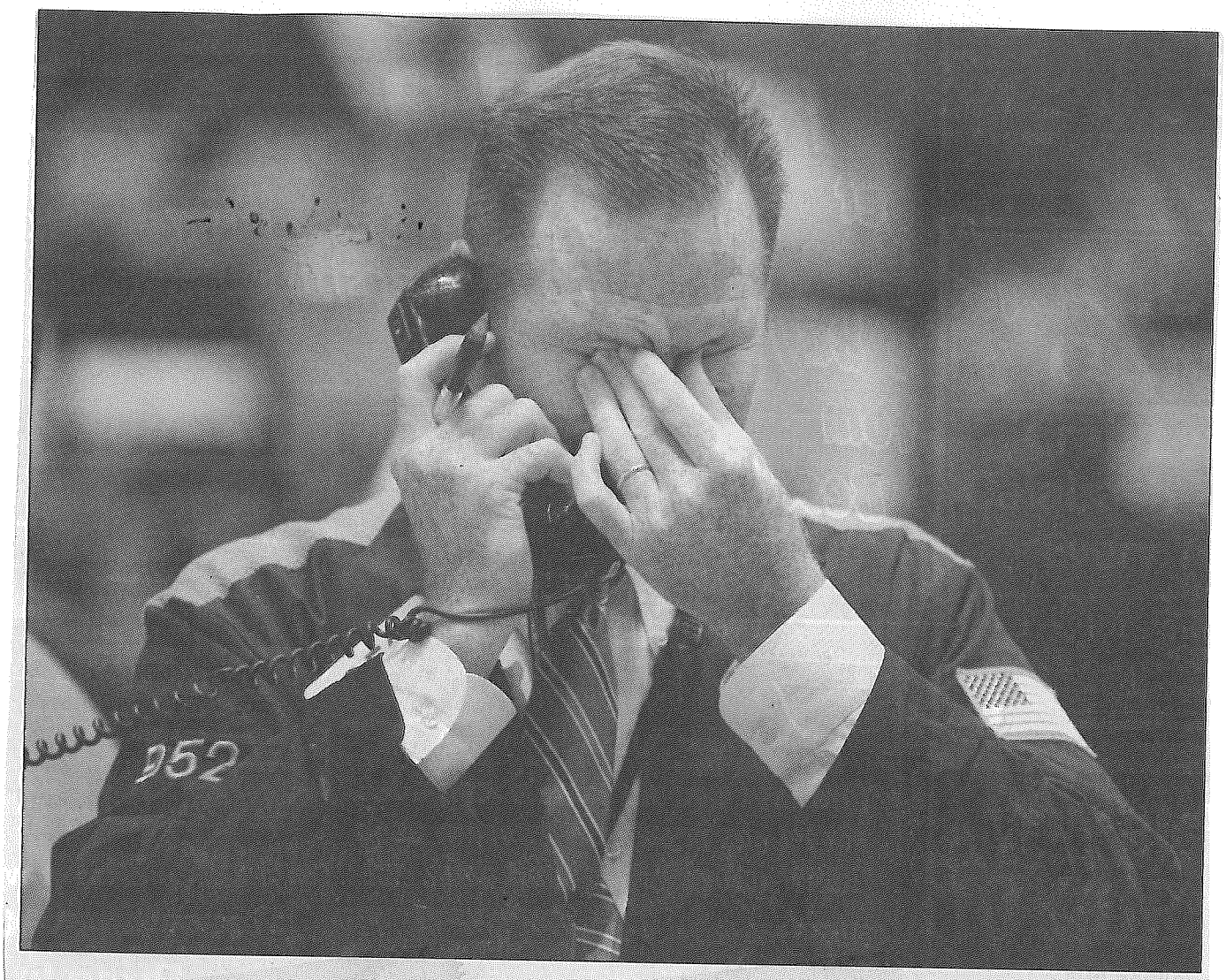
— The ICE Futures US dollar index, which measures the dollar against a basket of currencies, fell 4 percent for the year. The dollar gained 4 percent in December on expectations that a strengthening economy will lead to an increase in interest rates and make the dollar a more attractive investment. Analysts expect the dollar will remain strong early in 2010 but are divided over whether it can hold its gains if the economy struggles.

— Gold gained 24 percent for the year, rising as high as $1,227.50 and closing at $1,096.20 as investors looked for high returns ways to shield their money from inflation.

Stock market gains often come months before economic recoveries are confirmed. That's because investors tend

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The Journal
1/2/2010



In this file photo, trader Christopher Crotty rubs his eyes as he works on the floor of the New York Stock Exchange. ASSOCIATED PRESS

to bet on how they think business conditions will be six to nine months in the future. In downturns during the past 60 years, the S&P 500 index hit its bottom an average of four months before a recession ended and about nine months before unemployment reached its peak.

There are reasons to hope the market will start off 2010 well. In the first January after stocks start to recover from a bear market, the average gain in the S&P 500 index has been 3.7 percent, according to S&P's records.

But analysts don't expect a straight line higher, in much the same way that the 2009 rally stalled in June, September and October. And, there are no guarantees about January, especially since companies will be releasing their fourth-quarter earnings.

Earnings are likely to look good on the surface due to what the market calls easy comparisons — when held up against the dismal performance of the fourth quarter of 2008, profits are bound to look better. But businesses have relied on layoffs and other cuts to slash costs for the past year, and investors need to see a pickup in sales for them to believe the market's 2009 rally wasn't premature.

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