Pros predict stocks rising 10% in 2012 but see big risks, too

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NEW YORK — The good news is that Wall Street experts think stock prices will rise more than 10 percent next year. The bad news is that they expected big gains in 2011 and got nearly zero instead.

It's forecasting time on Wall Street, and once again the pros are trying to predict the unpredictable. History suggests their target price for stocks by the end of 2012 will prove too high or too low. They might even get the direction wrong — predicting a gain when there's a loss.

As baseball player Yogi Berra said: "It's tough to make predictions, especially about the future."

In typical times, guessing where stocks will end up in a year is difficult. Many assumptions about economic growth, inflation and consumer spending go into the calculation.

Now, forecasting has become nearly impossible. Big unknowns hang over the market as they rarely have before. Will the euro break up? Will China slow too sharply? Will squabbling in Washington scuttle the economic recovery?

"Normally, you wonder, 'How will sales do? How are managements doing?'" said Howard Silverblatt, senior index analyst at Standard & Poor's, which puts out its own forecasts. "Now there are so many high-level issues that affect the market."

Silverblatt's firm says the S&P 500 index should rise to 1,400 by the end of 2012, up more than 10 percent from Friday's close of 1,265. That figure is an average of expectations from investment strategists, economists and other big thinkers. More bullish yet are stock analysts focused on individual companies. Add up their price targets for each stock in the index, and they see it rising to 1,457, up 15 percent.

There's plenty of reason to think stocks will rise fast in the coming year. U.S. companies are generating record profits. Americans are spending more than expected, and factories are producing more. The job market finally appears to be healing, too.

The odds of the U.S. slipping into another recession have fallen since summer, when the economy slowed.

Stocks also seem attractively priced. The S&P 500 is trading at 12 times its expected earnings per share for 2012. It typically trades at 15 times, meaning stocks appear cheaper now.

Binky Chadha, Deutsche Bank's chief strategist, says the S&P 500 could hit 1,500 by 2012's end, a gain more than 18 percent.

Still, there is worry amid the bullishness.

Michael Hartnett, chief global equity strategist at Bank of America-Merrill Lynch, said he expects the S&P to close next year at 1,350, up 6.7 percent from Friday's close; he thinks the U.S. will avoid recession, and U.S. companies will see decent profits.

What could wreck that prediction is a worse situation in Europe than he is expecting. If European leaders move too slowly to solve their debt crisis, the region could fall into a deep recession and throw the U.S. into one, too. If Europe tanks, profits will drop sharply and push the S&P down to 1,000, he said. That would be a sharp 21 percent drop from Friday's close.

The frightening part is that Hartnett gives this "bear" case 4-in-10 odds.

Similarly, Barry Knapp, strategist at Barclays Capital, predicts the S&P will rise to 1,330 next year. But he said he expects Europe's struggles with its debt and Washington gridlock could lead investors to sell before they buy. He says the S&P could fall to 1,150 by the middle of the year before rising to his target.

It could drop sooner. In the first three months of next year, Italy needs to sell national bonds to raise money to pay holders of $172 billion worth of old ones coming due. The risk is that investors will demand high interest rates to buy the new bonds, and that will spread fears of a possible default. After Italy was forced to pay unexpectedly high rates in a bond auction earlier this month, stocks fell hard around the world.

One solution is to invest in companies selling goods that people need in both good times and bad, such as drugs and food. If the economy falls into recession, profits of these companies are less likely to collapse.

In 2011, these so-called defensive companies bucked the flat market. Stocks of utility companies have risen almost 15 percent through Friday.