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## INDIVIDUAL RESULTS MAY VARY

Hopes for a big ending to 2011 faded last week as the euro was hit and prices of distressed European bonds fell. Traders did manage to put in one positive day on the week which kept the major indexes from straying too far from unchanged. For the year the narrow Dow 30 stocks rose by 5.6%, but the broader S&P index was astonishingly unchanged for all of 2011. That seems incomprehensible given the tumultuous year. Of all the surprises in 2011, perhaps closing the year absolutely unchanged was the most surprising.

You are no doubt familiar with the ad disclaimer “Individual results may vary.” Those are most common at the end of ads for the latest weight loss miracle cure. How did that guy lose 70 pounds when you only lost 10? Individual results may vary. That same disclaimer can be used in investing. While the broad S&P index ended unchanged, your investments might have performed much better or much worse. If you followed a conservative path of cash, high quality bonds (no high yield bond funds), and quality dividend stocks, congratulations! You beat Wall Street. If on the other hand, you heeded the Wall Street advice at the beginning of 2011, you might want to toss your 401ks when they hit the mailbox this month. At the beginning of 2011 Wall Street had a very strong consensus that stocks would move higher by 15-20%, investors should move money into foreign markets (especially emerging market stocks), buy commodities, and avoid U.S. treasuries like the plague. *What actually happened:* stocks were flat, foreign stock markets fell by 15-20% generally, the broad commodity funds all fell on the year after the bubble burst in April, and U.S. treasuries were the best performing investment in 2011.

The Wall Street consensus for 2012 is less concrete than at the beginning of 2011, but Wall Street expects stocks to rise 15-20%. Wall Street *always* expects stocks to rise. Selling you stocks is their business. They wouldn't have anything to gain by telling you that their product was going to stink for the coming year. But the consensus is a bit more divided and for good reasons.

The list of potential road bumps in 2012 is long, but of course starts with Europe. Wall Street mavens say the euro will survive, and the worst of the possible market unrest will be over by mid-year. Wall Street experts also believe that the economy will then begin to advance more strongly for the balance of 2012. Generally, the consensus is that the first few months of 2012 will be unstable and volatile but followed by several months of growth and stability. In other words, stocks will be down early in the year but roaring ahead later.

I'm not taking a contrarian stand just to be contrary to Wall Street's view—although that's usually the best bet—but I expect a different outcome. If you haven't totally blocked from your mind what happened in 2011, you'll remember that the biggest stock market rallies came *after* the multiple euro rescue efforts following each crisis. The first three months of 2012 will present similar opportunities. There will be endless summits, “secret” meetings, and numerous proposals

to save the euro from extinction. I expect those events will actually help stocks early in 2012. But reality will settle in— that nothing positive will be forthcoming from the tumult in Europe. Most importantly to us, regardless of what “solutions” are achieved in Europe, the European economy will suffer. Remember that the combined European Union economy is actually larger than that of the U.S. The U.S. will suffer mostly the backside of the storm. Europe will be more of a drag on South America and Asia, but the resulting weakness in those economies will hamper our prospects as well. I think our best economic numbers of 2012 will be early in the year, not later. This week in fact, we should have two positive reports—one manufacturing index and the monthly Nonfarm Payroll report. I believe the U.S. can avoid a recession, but the risk for the economy is to the downside, not the upside.

There are wild cards aplenty. A China economic meltdown on a crumbling real estate market? Another surge in oil prices brought on by strife in the Middle East? A surprising plunge in Russia’s economy that leads to civil unrest? What we don’t know we don’t know? (That last one was courtesy of Donald Rumsfeld.) The point is we just don’t know what will become *the* issue of 2012. You’ll notice I did not mention the 2012 election. That’s because it is simply irrelevant for the 2012 economy and market performance. The government will not be a factor this year; that will come in 2013. It is certainly logical that Europe will top the list for the second straight year, but you can never be certain.

One thing that does look certain is that interest rates on the long-end of the market will not fall as much as in 2011. If they were to do so, the U.S. 10-year Treasury note yield would end 2012 at 0.50%. Not impossible mind you, just not very likely. I expect rates will stay very low again in 2012. With the uncertain global economic picture, I cannot make the case of a significant rise in rates. For those of you still on fence about buying a house or re-financing your mortgage, that’s good news. Time is on your side. For those savers among us, well, we’re getting used to paltry returns.

If you enjoyed the volatility in the markets in 2011, chances are good you are going to *love* the volatility in 2012. I can see reasonable prospects for a trading range on the S&P of as low as 900 to as high as 1400 or so. It’s also possible that the market will end 2012 unchanged again, but guessing on the stock market isn’t the point. If the twists and turns in the markets were unsettling to you last year and made you question your retirement plans, etc, *you need to take action now*. No more excuses. Get help from trusted and qualified sources, and get educated. Do not blindly follow Wall Street’s annual marketing pitch for certain wealth. Individual results may vary is a warning, not just a disclaimer.

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