

THE YEAR IN REVIEW

Debt crises held stocks in check in 2011.

provided by Renita M. Owens, CPA, PFS

A tumultuous year for stocks. As 2011 winds up, many investors are more concerned with return of capital than return on capital. That is understandable; Wall Street faced some powerful headwinds this year. With little policy momentum to foster or aid any available economic momentum, U.S. and global indices were poised to finish the year with flat to poor annual returns.

The debt crisis in Greece boiled over to Italy and touched Spain and France, scaring the world economy. Key heads of state from the European Union reaffirmed their countries' commitments to the euro and sought to reassure investors; many observers saw as much rhetoric as action in their efforts and were skeptical that the EU could effectively address its debt crises in the coming years.

At home, our economy expanded, but not as much as would be hoped for in the typical recession recovery. Unimpressive job creation and high unemployment thwarted any housing rebound, despite record-low mortgage interest rates. Many consumers perceived the economy as bad and Congress as even worse, but consumer spending and retail purchases showed improvement in an economy where inflation hovered around 3.5% and growth hovered around 2%. A super committee of 12 Capitol Hill legislators could not agree on where to make cuts to the federal deficit, only months after a drawn-out fight to raise the debt ceiling prompted Moody's to issue a historic downgrade of the U.S. credit rating to AA+. ¹

Stocks. As the holiday season started, the Dow was more or less flat for 2011: down 0.7% YTD at the close on November 22. Year over year, it was +2.8%. The S&P 500 was down 5.5% YTD on November 22 and its 1-year change was -0.8%; the NASDAQ had lost 0.4% over the previous 365 days and YTD it was at -5.0%. Looking at the small caps, the Russell 2000 was down 11.2% YTD and 4.3% YOY. ^{2,3,4,5}

How about the S&P 500 sectors? Approaching Thanksgiving, the YTD numbers looked like this (again, this snapshot was taken at the close on November 22): utilities, +7.0%; consumer staples, +3.8%; health care, +2.2%; consumer discretionary, -0.5%; info tech, -1.4%; energy, -2.8%; telecom services, -6.3%; industrials, -9.1%; materials, -15.0%; financials, -24.5%. That's three out of ten in the black. The S&P 500's total return was -3.78% at that point. ⁶

Other global benchmarks suffered from the anxiety generated by years of fiscal mismanagement on the part of sovereign governments. Morningstar data (measured in U.S. dollar terms) showed the following YTD losses among important world indices on November 22: Sensex, -20.2%; CAC 40, -24.6%; DAX, -23.5%; FTSE 100, -11.8%; Hang Seng, -21.0%; Nikkei 225, -18.7%; Australian All Ordinaries, -13.3%; TSX Composite, -

12.3%; Shanghai Composite, -14.1%; MSCI Emerging Market Index, -21.0%; MSCI World Index (ex-USA), -15.5%.⁷

Commodities. Gold and silver had definite allure. Looking at the handy charts from IndexMundi.com gold was up 22.8% YTD and silver 12.3% YTD on November 22; copper, on the other hand, was at -22.4%. In energy, crude oil had advanced 7.8% on the year; natural gas had fallen 20.7%; RBOB Gasoline futures were up 20.5% YTD. In crop futures, wheat was at -11.5%, cocoa -15.3%, oranges +40.6%, barley +7.0%, coffee -5.5%, sugar -11.6%, cotton -38.2%, rubber -26.4% and soybeans -12.7%. The U.S. Dollar Index approached Thanksgiving down 0.8% on the year.^{8,9}

Real estate. The annualized numbers mean most in this sector, and these were the latest available by late November. The pace of existing home sales as measured by the National Association of Realtors was 13.5% better in October 2011 than in October 2010, although the month-to-month data had shown basically a plateau since February. NAR's pending home sales index (September edition) showed 6.4% annual improvement; the National Association of Home Builders/Wells Fargo Opportunity index showed housing affordability at its highest in more than 20 years. The 20-city S&P/Case-Shiller Home Price Index showed an overall 3.8% year-over-year decline in prices in the September edition.^{10,11,12}

Total housing permits hit their highest level in seasonally adjusted terms in October since spring 2010 (when the home buyer tax credit expired). New home sales, however, were down 0.9% from a year before in October.^{10,13}

All in all, it was a year for patience. 2011 required it, and 2012 may require much more. Years of deficit spending have come to haunt key economies. What would have been stunning volatility during most of the 1990s or 2000s seems par for the course today as we have to hang on, stay diversified and ride out the turbulence - hoping that our stock market can manage at least a bit of "decoupling" from the debt troubles plaguing continental Europe.

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the 100 most highly capitalized companies listed on the London Stock Exchange. The Hang Seng Index is a freefloat-adjusted market capitalization-weighted stock market index that is the main indicator of the overall market performance in Hong Kong. Nikkei 225 (Ticker: ^N225) is a stock market index for the Tokyo Stock Exchange (TSE). The Nikkei average is the most watched index of Asian stocks. The S&P/ASX All Ordinaries Index represents the 500 largest companies in the Australian equities market. The S&P/TSX Composite Index is an index of the stock (equity) prices of the largest companies on the Toronto Stock Exchange (TSX) as measured by market capitalization. The SSE Composite Index is an index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange. The MSCI World Index is a free-float weighted equity index that includes developed world markets, and does not include emerging markets. The MSCI Emerging Markets Index is a float-adjusted market capitalization index consisting of indices in more than 25 emerging economies. The US Dollar Index measures the performance of the U.S. dollar against a basket of six currencies. Additional risks are associated with international investing, such as currency fluctuations, political and economic instability and differences in accounting standards. All information is believed to be from reliable sources; however we make no representation as to its completeness or accuracy. All economic and performance data is historical and not indicative of future results. All indices are unmanaged and are not illustrative of any particular investment. Please note - investing involves risk, and past performance is no guarantee of future results. The publisher is not engaged in rendering legal, accounting or other professional services. If assistance is needed, the reader is advised to engage the services of a competent professional. The publisher is not engaged in rendering legal, accounting or other professional services. If assistance is needed, the reader is advised to engage the services of a competent professional.

Citations.

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