2012: Resumption of the Stock Market Recovery

By Ron Surz *Thu, Jan 10, 2013*

Each January, this guest columnist provides a unique review of not just the previous year in the financial markets but of their last 87 years.

Never test the depth of the water with both feet–African proverb.

After feasting on the U.S. stock market's 54% run-up from 2009 to 2010, we starved for performance in 2011, suffering a 1% loss. Some said the markets were due for a respite, so this lull was healthy, but I felt we were lucky that results weren't much worse, as they were outside the U.S., and that 2012 would be a disappointment.

I was wrong.

Stock markets both here and abroad had a good year in 2012. So is now the time to get back into the stock market? Are you ready to jump in with both feet?

I'm not.

Let's take a close look at the details of what occurred in 2012 so we can assess the opportunities and prepare for the surprises that 2013 will bring. In particular, let's look at momentum and reversal possibilities coming into 2013. I'll give you my opinions, and you should form your own.

Here are a couple of facts worth noting about 2012. As discussed in my Q3 commentary, investors bailed from equity mutual funds, which should have depressed stock prices, but corporate-share buybacks more than offset this exodus. Also, much of the stock mutual fund redemptions found their way into stock ETFs, a move from active to passive management.

We should not forget the losses sustained in 2008. Despite popular perception, we have just now recovered 2008 losses; the 54% 2009-2010 gain did not offset the 38% loss in 2008. But 2012 has brought the U.S. stock market back into positive territory, with a 3% cumulative return for the five years 2008-2012. We're above break-even.

I begin with a review of the lessons learned in 2012 around the globe and then extend the perspective to the longer-term history of U.S. markets over the past 87 years. My goal is to arm you for thoughtful investment decisions.

For the entire Surz commentary, click here.