

Buena Vista Investment Management, LLC

Creative Investment Solutions

STOCK MARKET POSTS BEST JANUARY SINCE 1997

By Joel Sullivan, Partner

The Dow Jones Industrial Average gained 3.4% in January, which was the biggest January gain in 15 years. The average finished the month at 12,632. The S&P 500 ended the month at 1312, which was an increase of 4.4% since the first of the year. Besides being one of the best Januaries in many years, this past month exhibited much less volatility than we saw throughout most of 2011. Gone, for now, are those wild swings of 300 or 500 points in the Dow. Actually, in January we saw only two days where the Dow moved over 100 points and those were both up days. The VIX, which is a measure of volatility, dropped from 30 in December to 18 by the end of January.

This strong start to the New Year isn't limited to the US stock market. January's advance in the MSCI All Country Index, which tracks stocks in 45 developed and emerging countries, is the best performance during any January since 1994, according to Bloomberg news. It appears investors are starting to become a little less concerned about a negative spillover from Europe to the US markets. The ECB has helped European banks by giving them access to capital through a 3 year loan program, and Greece is getting closer to coming to terms with its bond holders in order to avoid a default. Additionally, our Federal Reserve Bank seems to be encouraging markets by declaring that interest rates should stay extremely low for another 2 years.

Also, companies are beginning to report earnings for the 4th quarter of 2011. For the most part, these numbers are coming in at or above forecast. The combination of the developments mentioned previously, good earnings and better economic data has helped push the US stock market higher. Consequently, we are seeing reports of strategists at the biggest banks up-grading their forecasts for 2012. A prime example is Larry Hatheway, the chief economist at UBS, who just two weeks after saying that investors should "remain cautious", raised his recommendations on global shares. Thomas Lee, chief equity strategist at JP Morgan, says the S&P 500 will probably climb to 1430 by the end of this year.

With such a strong January, this market may be poised for a pullback. Markets don't go straight up. However, many on Wall Street believe such a pullback would only be a pause in this upward rally. With the stock market, often times, how January performs is indicative of how the rest of the year will play out. 2012 could be another one of those positive years in the stock market led by a strong January.

Remember to tune in Friday, February 24th on WFHR at 10:30am we will be presenting our monthly radio show "Investment Insights from Buena Vista." Also please go to our website to stay up on our latest thoughts, buonavistainv.com

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