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Creative Investment Solutions

2011 STOCK MARKET IN REVIEW
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We experienced a lot of volatility in the stock market in 2011. As we begin a new year, it seems appropriate to look back on some of the ups and downs we saw in the market last year. There were several major themes in 2011. One of those themes would be the amount of volatility. As I talked to people during the year, I often heard them say how bad the stock market was lately. Some of them talked about how frustrated they were with the market because" it keeps going down." Now that the year is behind us, let's examine the facts behind these investor sentiments. The nice thing about year-end reviews is that we have the advantage of perspective. When we are in the middle of a situation or event, our emotions can often dominate. Looking back, we can focus more on facts rather than feelings.

When we refer to the stock market, for this article, we will be referencing the S&P 500. So how bad was the stock market in 2011? We actually had 3 somewhat distinct markets in 2011 in terms of performance. From January through July 22nd the S&P 500 was up 7%. Then from July 23rd through October 3rd the market was down 18%. And from Oct 4th to the end of the year the market was up 14%. Obviously there were a number of major moves in the market last year, but what may not be so obvious is that the S&P 500 started the year at a level of 1257 and it ended the year at 1257. Exactly the same place it started, with a net gain/loss of zero. I suppose you could say that we had a bad market last year, but 0% isn't too bad as a follow up to +23% in 2009 and +13% in 2010.

Regarding the other sentiment that" the market keeps going down". Let's look at the facts. Since 2003 the stock market is up over 38%.

One more fact that may surprise you. Of all the major stock markets around the world, such as the British market, the German market, the Hong Kong market, etc… the best performing market of the group for 2011 is the United States market.

So why is investor sentiment relatively negative? One possible reason is volatility. For example, in August of last year the Dow Jones Industrial Average dropped 500 points not once, not twice but 3 times during the month, including a 635 point drop on August 8th. These were the largest, but there were additional major down days in the market during 2011. So even though the S&P 500 finished even for the year, it is easy to see why the average investor may have a negative view of the market.

So, what can we learn from 2011? As an investor, it is difficult to make money if you react to day to day volatility. That is not to say you should never change your investment portfolio. However, when deciding to make changes keep in mind that your likelihood of success is greater if you take a medium to longer term view of the market. And make decisions based on facts, not emotion!

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