WEALTH DAILY
Independent Investment Analysis and Commentary

2012 Stock Market Forecast

Special Report

I hate the freaking New York Yankees.

But if there's one Bronx Bomber you gotta love, it's Yogi Berra...

Yogi could do it all in his day. And he certainly had a way with words.

In fact, every year around this time, one of Yogi's funnier lines haunts me while I sleep:

"It's tough making predictions, especially about the future."

With that in mind, today I give you my *2012 Stock Market Forecast*.

Of course, if your nights are filled with fears of the world's end in 2012 as predicted by the Mayans, you are likely to be disappointed.

The same goes for the fanatical believers in DOW 3,000. As the calendar turns another page, these doom-and-gloomers will learn that time marches on in 2012. So too will the markets.

Along the way, investors will make a round trip all way back to **DOW 14,000**, a level last seen in October 2007.

Five years later, what a long, strange trip it will have been. Even so, I believe we will get there in 2012.

It's the first time I have been this bullish since calling the 2009 stock market bottom. Here's why...

Eight Reasons to Be Bullish Next Year

1. Time heals all wounds.

The scars of the financial crisis may be deep, but the fact is four years later, the hallmarks that caused the crash are all in the rearview mirror.

It's not 2008 all over again, and the doom-and-gloomers will be on the wrong side of the trade again in 2012.

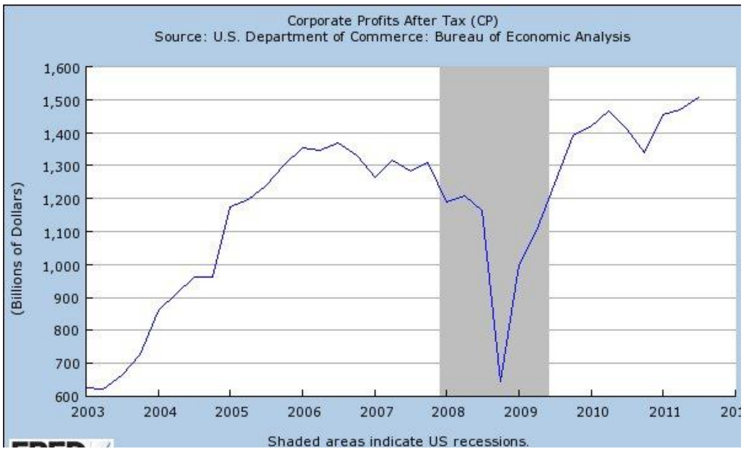
For the record, the S&P 500 earned $543.2 billion in 2009, $792.8 billion in 2010, and is expected to earn $910.3 billion in 2011. What's more, the S&P 500 is expected to earn $1.04 trillion in 2012.

The point is, while there have been declines and long periods of consolidation, history tells us they are only temporary given enough time. Believe it or not, the bull market *will* return.

Here's a bet on 2012 as the business cycle kicks back in.

2. Corporate profits are at an all-time high.

You may not realize this, but after tax, corporate profits are higher now than they were at the peak in 2006. Take a look:



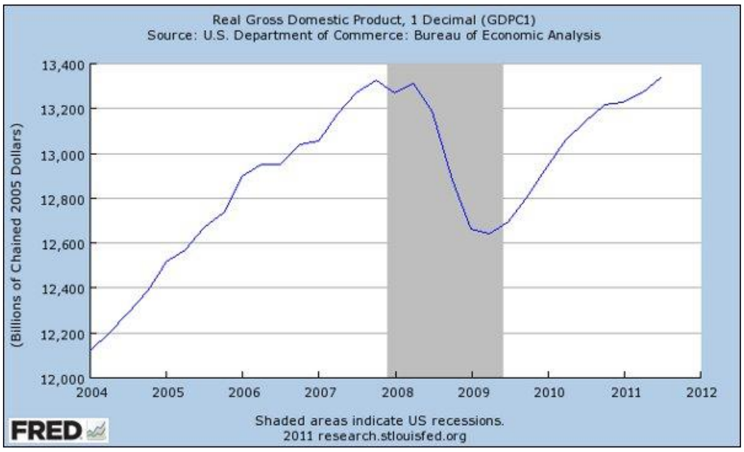
Now that 96.6% of the S&P 500 has reported Q3 earnings, we know profits are up 15.6% year over year. What's more, if you take out the financials, the growth is even better.

Without them, S&P earnings are up 18.7% year over year... That's *bullish,* not bearish.

3. The economy is expanding.

The long story short here is pretty simple: We are experiencing a moderate growth expansion — not some bearish apocalypse.

Notice I said *expansion*, not *recovery.* That's because real GDP has moved above its previous peak, going all the way back to Q4 2007:



As for the double-dip recession, it just isn't going to happen. Incoming data on consumption, business spending, and residential investment all point to GDP growth of near 3.3% in the fourth quarter.

So while Europe fiddles, Uncle Sam is, in fact, gaining strength...

4. Job growth will improve.

With the profits at an all-time high and the economy now expanding, job growth will eventually begin to follow suit.

(Keep in mind that job growth is always a lagging indicator. It's no different this time around.)

According to John Herrmann, senior fixed-income strategist at State Street Global Markets, there's plenty of reason to be optimistic on the job front. Herrmann says private sector payrolls will increase an average of 160,000 per month for the rest of this year — and by 200,000 per month in the first four months of 2012.

Absent the ongoing shrinkage of government jobs, that means 1,120,000 new private sector jobs will be created by May 1 if Herrmann is accurate in his predictions.

That will be a huge win for the markets going into the first half of 2012, even if Herrmann ultimately misses the high-water mark.

5. The housing market bottoms.

Six years after I made my call for housing to drop by 30%, it finally begins to happen. Down 35% nationwide, home prices reach bottom in 2012, spurred on by pent-up demand and the lowest interest rates of all time, thanks to the Fed pushing rates down on mortgage bonds.

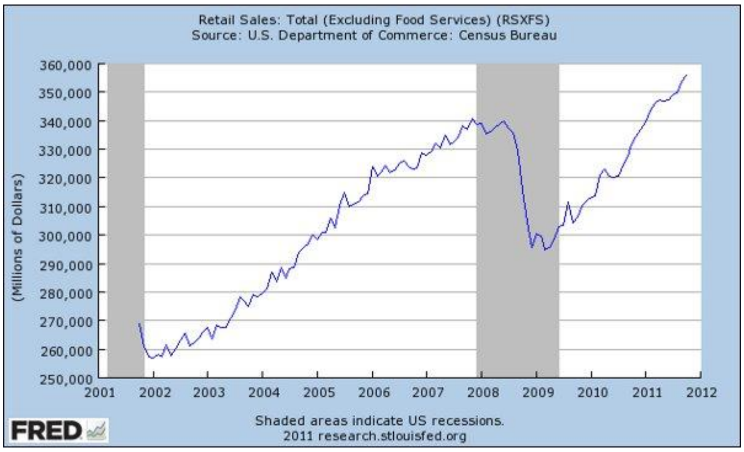
The result is the one thing the market has found to be most elusive of all: the return of housing demand going into the spring buying season.

Admittedly, it won't be blockbuster... but it will be enough to change the housing conversation next year. And as this change begins to unfold, it is going to be a huge plus both psychologically and in terms of GDP growth.

Negative housing news may not move the market these days, but positive news undoubtedly will. Expect real estate to surprise to the upside in 2012.

6. Consumers make a comeback.

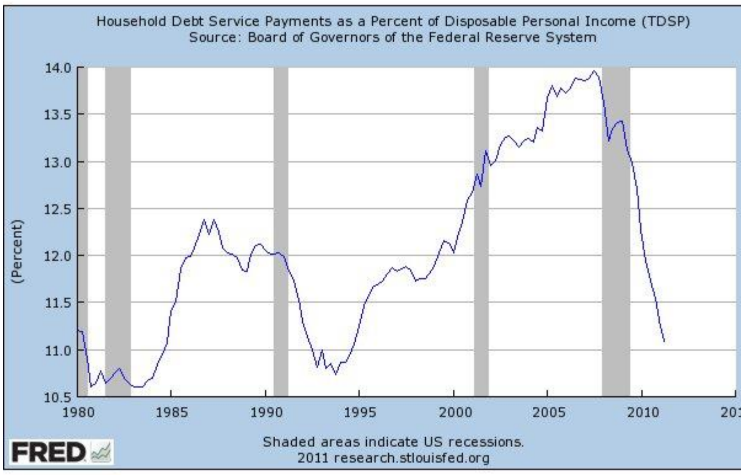
In a way, this one is already happening. As the chart below shows, total retail sales are now above 2008 levels. In fact, retail sales are now up 18.9% from the bottom — and 4.5% above the pre-recession peak:



As the virtuous circle of rising markets, the expanding economy, the housing bottom, and job creation begin to take hold, consumers will be *even more* willing to spend again on pent-up demands.

I expect retail sales to continue to improve as a result — especially in autos and durable goods as another business cycle begins anew.

After all, consumer balance sheets are getting better, not worse...



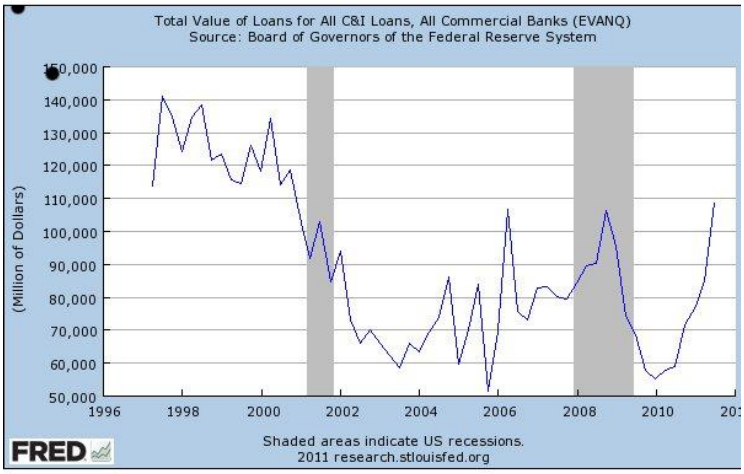
For all consumer loans, the third quarter delinquency dropped to 3.15%, the lowest rate since the second quarter of 2007 before the recession started.

Consumers get even stronger in 2012, leading them to open their wallets for the first time in years.

7. The monetary tank is full .

When things begin to turn around, there will be plenty of money behind them.

Thanks to the Fed, the banks are now loaded to the gills with loanable funds, which leads neatly to my next point…



Coming off the 2010 lows, money is moving again as banks approve more loans. The thing to keep in mind is that these investments act with a lag effect that doesn't kick in until later...

8. That makes stocks cheap.

As profit margins rise and corporate earnings hit new highs, the S&P 500 is currently undervalued.

As always, it starts with profits. They are what really make the market go round.

In that regard, on a bottom-up basis the S&P 500 earned $56.88 in 2009, $83.18 in 2010, and is expected to earn $95.46 in 2011. It's estimated the EPS of the S&P 500 will cross the $100 mark for the first time ever, reaching $104.95 in 2012...

On a P/E basis, that means at the 1,186 level, the S&P 500 is currently trading at 11.3X 2012 earnings. That's historically cheap. Even at just 13X 2012 earnings, the S&P is worth 1,365.

Better yet, at a P/E of just 14.2, the S&P 500 would hit 1,490 — or be within a whisper of the old high going back to 2007. (For the record, the average P/E ratio for the S&P since the 1870s has been about 15.)

Again, that makes stocks relatively cheap as we head into 2012... especially with 10-year note yields hovering in the 2.0% range.

Of course, the great unknown in all of this is Europe. And admittedly it's a big one — but here's a guess they eventually blink and backstop the whole continent with few trillion in 2012.

The bottom line: 2012 is going to be a great year for equities. Buy stocks today.

By the way, if you're interested in how accurate my crystal ball was last year, I predicted the S&P would remain range-bound in 2011, trading between 1,100 and 1,300...

For the record, the S&P traded in range between 1100 and 1360. Not bad.

Your bargain-hunting analyst,

Steve Christâ¨
Editor, *Wealth Daily*

You can view the HTML version here: 2012 Stock Market Forecast

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