RBC Wealth Management

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One year ago, financial markets around the world were in a state of crisis. Now there is a growing sense of hope and perhaps even optimism. Stocks have had a record breaking rally since the lows in March, 2009. This has been spurred by a steady improvement in economic indicators, a return to positive GDP numbers in the third and fourth quarters of 2009 and positive earnings surprise by the majority of S&P 500 companies in the last three quarters of the year. Skeptics point out that inventory restocking accounted for half the 5.7% increase in 4th quarter GDP. However, this is a normal cyclical phenomenon: the recession was exaggerated by inventory depletion and we are now entering a replenishment cycle which will result in rising manufacturing capacity utilization and, in turn, employment gains.

If the financial markets follow their typical post bear market recovery cycle (since 1960), the S&P 500 could eventually reach 2,000 and the DJIA could exceed 18,500. Also remember that from the market lows in late 1982 to the peak in 1989 the DJIA & S&P 500 rose by approximately 250% and, furthermore, from the low in 1991 to the peak in 1999 they rose by 400%. I am not necessarily predicting similar, spectacular returns in the coming decade, rather I want to provide historical context for our current situation. It is also not an effort to convince investors to plunge into the equity market - the rules of time horizon, risk tolerance and prudent asset allocation should always be observed.

You should also consider the fact that in the last 160 years, we have had only four periods when equity markets provided negative, ten year annualized returns: during the Civil War, in the early 1930's, again in the late 1930's and now. This rare occurrence has generally been followed by a reversion to the mean and periods of unusual opportunity. I believe we are in the midst of one now.

Despite this, many economists and market commentators feel domestic and global markets have run too far, too fast and investors are confused. I believe that economic fundamentals will continue to improve, corporate revenues will begin to grow more robustly and this will support rising financial markets. Adapting to a new environment is often most difficult when it is most necessary. We will continue to skate to where we think the puck is going, not where it has been, and encourage you to do the same. For more detail, or to comment and ask questions, please visit my website, call or email.

Regards,

Terry