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Hold on for a rocky ride; Local experts predict more volatility next year

By David Robinson - NEWS BUSINESS REPORTER

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Brace yourself: The stock market's wild ride from 2011 is likely to continue into next year.

With the European financial crisis still bubbling and a presidential election on tap at home, a panel of local investment advisers is predicting plenty of ups and downs for the stock market in 2012, much like what investors endured this year.

Their potential reward: The panel is expecting fairly average returns for investors who ride out the swings. They expect the Dow Jones industrial average to rise by an average of 7 percent, with the Nasdaq Composite index faring even better, with a 9 percent jump.

But the sentiment is far from unanimous. More than half of the nine advisers surveyed by The Buffalo News are forecasting that the Dow will rise by 6 percent or less.

"A political standoff that will end too late in 2012 to make much of a difference and continued unrest in Europe make 2012 a tough year to own stocks or bonds, but a great year to buy stocks," said David Hartzell, the president of Cornell Capital Management in Clarence.

Hartzell is the most bearish of the local advisers, predicting a meager 3 percent gain by the Dow and a 2 percent rise by the Nasdaq. "Buy when there is blood in the streets," he said.

A lot of what happens in the U.S. stock market will hinge on events in Europe, where nations from Spain to Italy and Greece are grappling with serious financial crises.

"The real trump card here is whatever happens in Europe," said Gerald T. Cole, the managing partner at Arbor Capital Management, an Amherst money management firm, who predicts a 2 percent rise in the Dow and a 5 percent rise in the Nasdaq. "We're, for the first time, in a situation where what happens in Europe could have sweeping implications over here."

If those international issues don't get worked out to the satisfaction of the financial community, it could lead to rocky times, warned Brian G. Cannon, the managing director at Dopkins Wealth Management in Williamsville.

"I'm not suggesting we're at a tipping point, but I do believe one bad policy decision could throw the markets into turmoil," said Cannon, who nevertheless has confidence that the markets will end the year on a positive note, with the Dow up almost 9 percent and the Nasdaq up 10 percent.

Cynthia E. Vance, a certified financial planner at Jensen, Marks, Langer & Vance, a Buffalo money management firm, sees progress being made in dealing with the European financial crisis.

"Europe will continue to be a challenge, but we think the European leaders will eventually come together with a comprehensive plan, although we are likely to see some debt restructuring," said Vance, who predicts an 8 percent rise by the Dow and an 11 percent jump by the Nasdaq.

"We expect the markets will be dominated by the upcoming presidential election and the Eurozone crisis. By year end, however, we think sufficient progress will have been made in these areas, and it will result in a modest rise in stock prices," she said.

Tim Johnston, the managing partner at Sandhill Investment Management in Buffalo, sees the trillion-dollar U.S. budget deficit as a major drag on the stock market.

"Until there is a meaningful reduction in our federal budget deficit, there will be no meaningful rise in our equity markets," said Johnston, who predicts 5 percent gains for both the Dow and Nasdaq. "If we don't address these deficits, we're in trouble."

Yet Johnston, who describes himself as "an optimist at heart," thinks some of those issues will be offset by the resiliency of U.S. companies, which have generally emerged from the recession leaner, more profitable and with less debt than before.

"Corporate America is just running beautifully," Johnston said. "If Washington could get its act together, we could have a very nice run in the equity markets. But it ain't going to happen."

That strength is why Lawrence V. Whistler, the chief investment officer at Nottingham Advisors, sees the Dow rising by 6 percent and the Nasdaq gaining 7 percent this year.

"In 2012, the U.S. is going to continue to be the best house in a bad neighborhood," Whistler said.

Whistler thinks the U.S. economy will grow slowly this year, in the range of 2 percent to 3 percent. Like Johnston, he thinks U.S. companies are generally in good financial shape.

"I think profit margins are high because companies haven't added payroll as business has come back," he said, although profitability could erode in 2012 if hiring picks up to handle further upticks in sales.

Yet with the European uncertainty remaining, Whistler is playing it safe, with a preference for Blue Chip U.S. stocks that pay dividends.

Anthony J. Ogorek, who runs Ogorek Wealth Management in Amherst, thinks the current low interest rates and respectable yields on Blue Chip stocks will be good for the major market indexes.

"When the Dow is paying close to a 3 percent dividend and 10-year Treasuries are yielding less than 2 percent, it suggests that stock prices have some room to rise," said Ogorek, who sees the Dow and Nasdaq rising by 7 percent. "Higher volatility securities will be viewed less favorably by investors until we have some resolution of the sovereign currency issues in the Eurozone."

None of the financial panelists are nearly as bullish as Bruce Kaz, the president of Courier Capital Corp., a Buffalo money management firm. Kaz is forecasting a 14 percent jump by the Dow and an 18 percent surge by the Nasdaq.

Kaz, like most of the other panelists, sees the tug of war between the solid financial health of Corporate America and the fear that the European crisis could drag down the stock market.

But he sees the outcome of this tug of war being as almost a best case scenario for investors. "The recovery is winning this tug of war," Kaz said.

"Until there is evidence of decelerating earnings -- and there is not -- lean in the direction of this ongoing earnings recovery," Kaz said. "The U.S. economy is strengthening, Euro fears will ease and the equity markets will rise to reasonable valuations."

The presidential election also could be a factor, said James P. Julian, executive vice president at Robshaw & Julian Associates, an Amherst money management firm. A

Republican victory likely would be good for stocks by "ushering in a less business-averse administration," he said. President Obama's re-election would hurt stocks, he said.

With so much volatility in the forecasts, Julian, who expects the Dow to rise by 4 percent and the Nasdaq to increase by 9 percent, also thinks investors would do well by focusing on financially solid big company stocks that pay above-average dividends.

Cannon recommends that investors try to manage the risk in their portfolios by broadly diversifying their holdings, taking a passive approach to managing their portfolio and focusing on only the highest-quality fixed-income investments.

"Maintain focus on the things we actually can control: the amount of risk we take, diversifying those risks as much as possible, keeping costs low and tax efficiency high," Cannon said.