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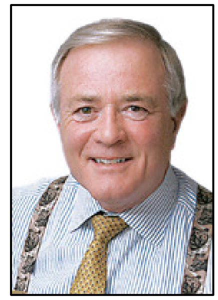
William Rutherford

Markets' solid starts bode well for 2012

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There is an old saw about the equity markets: As January goes, so goes the year. But like many old saws, there is a basis in fact for this one. Note that the S&P jumped 4.4 percent for the month, with the tech-heavy NASDAQ up 8 percent.

In addition, the "first five days" theory holds that the S&P has never fallen in a year when the first five days of the year see gains of 1.8 percent or more. In the first five days of 2012, the Dow rose 1.8 percent.

The Dow index has matched the direction of January performance in 92 percent of years since 1970. In 85 of the Dow's 114 years – 75 percent of the time – the January effect has held true.

Reasons for optimism have emerged. Most recently, the unemployment rate fell to 8.3 percent from 8.5 percent a month earlier and 9.1 percent as recently as August.

This is because net job creation in January was 243,000 – more than expected. Moreover, December job growth was revised upward, as was November from 100,000 originally to 157,000.

These jobs were created in the private sector; business added 257,000 jobs as the public sector continued layoffs. Small businesses added 95,000 jobs, while medium-size firms added 72,000. Large companies added only 3,000 jobs. Most Americans work at businesses ranging in size from small to medium; these are the ones that banks are becoming more willing to lend to.

Factory orders are up for the second consecutive month. Factory orders grew in Germany for the first time in four months. Orders also grew in Austria, Britain, Norway and Sweden. Northern Europe's numbers are a hopeful sign for a continent probably headed for a recession. The Institute for Supply Management numbers surpassed expectations – 56.8 to 53.1.

February is typically one of the worst months for the Dow, but it started this one strongly. When the jobs number was released, the Dow powered to its best closing level since 2008. The S&P pushed ahead 6.9 percent for the year, its best start since 1987. The NASDAQ turned in its best close since December 2000.

All these numbers are good for President Obama's chances for re-election. In the 16 elections since WWII, the period for which records were kept, where presidential terms saw job creation, the president was re-elected 10 times. Where job growth was modest, the race was close; and where job growth was negative, the incumbent lost.

It would seem that President Obama would have to exceed the rate of population growth. So, if an average of approximately 150,000 jobs were added each month between now and the election, he would be the favorite to win. Fewer jobs would cast his re-election in doubt.

The Federal Reserve has pledged to continue to keep interest rates low for at least another year, and maybe longer. It has shown its intention to do everything in its power to aid the economy.

When the Central Bank wields such a heavy bat, one has to take notice. The recent strong employment numbers could cause the Federal Reserve to alter its direction on interest rates and support for the economy. But sovereign debt problems continue in Europe and could erupt again at any moment.

In my view, emphasis should still be placed on equities, with fixed income for safety and security and to dampen volatility. Growth in the economy and earnings should continue to fuel equity investments. Tip the scale with equities over fixed income.

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