

IN '07, VOLATILITY RETURNED TO STOCKS

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Stocks fell Monday, ending the quarter down, but the market, over the year, was up.

That fit the pattern, if you could call it that, of 2007, when domestic stocks were all over the place, never heading in one direction for very long.

"We've seen the return of volatility. I think that will be around for a while and will govern trading for the New Year," said Scott Fullman, director of investment strategy at I.A. Englander & Co. He suggested that anyone going into the New Year hone in on a strategy as the markets continue to swirl. "This is not a time where you throw a dart at the board," he said.

It's widely expected that the economy will slow next year and that domestic stocks will struggle early in the year.

Nonetheless, Richard D. Steinberg of Steinberg Global Asset Management, a Boca Raton firm that manages \$500 million, is looking for an up market in 2008. He expects a nearly 9 percent gain for the Standard & Poor's 500 by year's end.

On the other hand, he doesn't expect the double-digit increase in corporate profits that some on Wall Street are forecasting.

"My concern is the disconnect between analysts' expectations and reality," he said. "I don't know what economy they're looking at, but we don't see that type of strength."

Robert Levitt of **Levitt Capital Management**, which manages \$450 million in Boca Raton, thinks investors' fears are overblown.

"The markets are overly pessimistic right now," he said. "Heading into 2008, the problems that we know about such as the subprime issue won't sink the market."

On Monday, housing was very much on investors' minds. A report showing existing home sales remained weak sent the Dow Jones industrial average down 101.05 points to close at 13,264.82 on the last trading day of the year. The S&P 500 fell 10.13 points to 1,468.36, while the Nasdaq composite index was down 22.18 points to 2,652.28.

For the year, the Dow's gain was 6.43 percent, the S&P 500 was ahead 3.53 percent and the Nasdaq gained 9.81 percent.

Only the Nasdaq's performance rivaled its 9.5 percent gain in 2006. Other indexes fell short. The Dow in 2006 was up 16.3 percent and the S&P 500 was up 13.6 percent.

The course of 2007 was not an easy one for domestic investors. Stocks began the year on an upward tear, then went through one of the largest one-day declines in history in February, only to set an all-time high for the Dow in April and again in July. Then the markets broadly declined in the fourth quarter.

When investors were not watching the housing market wilt and foreclosures rise, they were in a panic over the subprime mortgage crisis and the credit market drying up. The worst sectors in December were home builders, financial stocks and anything to do with real estate.

The best domestic sector in 2007 was natural resources. Gold was strong, as well.

By contrast, international markets held up much better, despite the subprime crisis spreading beyond U.S. borders. Stocks from China, Latin America and the Pacific region with the exception of Japan, all recorded huge gains.

"The developing world continued to grow much faster than the developed world market," Levitt said. "Investors should continue to look at opportunities overseas and domestically."

As 2008 begins, the threats include high oil prices, which stand now 57 percent higher than last year at \$95.98 a barrel, and the economy's weak outlook.

Standard & Poor's, an independent financial research firm, is forecasting that the U.S. economy will grow by 1.9 percent after inflation next year, down from an estimated 2.2 percent growth rate for the gross domestic product this year and 2.9 percent in 2006. The growth rate for consumer spending will fall to 1.8 percent, down from 2.8 percent in 2007.

On the plus side, S&P expects inflation to remain a tame 2.1 percent.

In South Florida, investors who are seeing their home prices decline may have trouble seeing that the problems, so far, seem worst in housing and financial stocks.

"If you can emotionally detach yourself from that, you'd see we're in pretty good shape except for those sectors," Steinberg said.

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