

# Capstone Comments

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## 2012 1st Quarter What happened to the stock market?

The first quarter of 2012 has provided the best stock market opening in 14 years. The S&P 500 posted a 1<sup>st</sup> quarter gain of 12.0% and a 6-month gain of 24.5% (InvesTech Research, March 30, 2012). The S&P 500 stock index has produced double-digit total returns in the last 2 quarters. The stock index has gained at least 10% in consecutive quarters 3 separate times since 1990. In the quarter after the previous 2 back-to-back double-digit gain quarters, the stock index was up 6% both times (BTN Research, April 9, 2012).

There are several areas that have bolstered the U.S. economy. The following indicators appear to be heading in the right direction:

- Consumer Sentiment: Consumer confidence, both present and future, has continued to rise since last summer's sharp decrease during the political posturing over the debt ceiling.
- Employment: Weekly unemployment claims fell to the lowest level in 4 years (USA Today, April 5, 2012). According to the Department of Labor, the unemployment rate was 8.2% as of March 31, 2012.
- Gross Domestic Product (GDP): Slow but steady GDP growth and moderating inflation will continue to play an important part in this lengthy recovery.
- Housing: There has been an increase in building permits, the best start to a year in home re-sales since 2007, and signs of a bottoming in sales of new homes. There has also been a slowing to the decline in real estate prices and a decrease in the inventory of unsold homes (The Value Line Investment Survey, April 6, 2012).
- Leading Economic Index (LEI): The LEI which forecasts future economic activity continues to hit new highs as manufacturing expands and the job market steadily improves.

The other key to this quarter's success has been in Europe. Policymakers have continued to address their sovereign debt issues. The market seems to have priced in any European uncertainty and consumers are no longer as affected by negative news coming from Europe.

Over the next several months there are several areas to watch, such as the Presidential Election which historically provides for positive returns in an election year, gasoline prices topping \$4/gallon in some parts of the U.S., and a potential economic slowdown in China.

Capstone  
Wealth Management

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