



**Financial Services, LLC**

33 South Commercial Street  
Manchester, New Hampshire 03101  
Tel: 603-641-1010  
Fax: 603-641-0707  
e-mail: [fdemaio@jtdfinancial.com](mailto:fdemaio@jtdfinancial.com)  
[www.jtdfinancial.com](http://www.jtdfinancial.com)

## **STOCKS IN THE FOURTH QUARTER**

*Can the last quarter of 2011 live up to historical averages?*  
Provided by Frank DeMaio

**Is a rally ahead?** You may have heard that stocks tend to do well in the fourth quarter. History affirms that perception: while past performance is no guarantee of future results, the last quarter of the year has historically been the best quarter of the year for U.S. equities. As data from Bespoke Investment Group notes:

- The S&P 500 has averaged a +2.44% performance in fourth quarters since 1928.
- In the last 20 years, it has averaged +4.57% in fourth quarters.
- In the last 30 years, it has advanced in 24 of 30 fourth quarters with an average price return of better than 7%.<sup>1</sup>

**Will the Street put its anxieties aside?** Right now, you have a lot of uncertainty. Many analysts see a stock market unimpressed by tepid domestic growth and waiting fearfully for the other shoe to drop (meaning Greece). They see more pain ahead for U.S. investors. On the other hand, there is also talk of when a point of capitulation might be reached, i.e., is Wall Street simply ready to rally even in the face of the debt troubles in Europe and the slow recovery here.

You could argue that certain Wall Street psychologies (and tensions) aid 4Q rallies. After all, the pay of money managers relates to performance and there is renewed pressure on them to come through as the end of a year looms.

**Could new optimism surface?** Perhaps it is surfacing now. As the third quarter wrapped up, Reuters polled 350 stock market analysts worldwide. Their consensus forecast was that 18 of 19 major world stock indices would either advance or suffer insignificant losses in the fourth quarter (Taiwan's TAIEX was the lone exception in the forecast).<sup>2</sup>

They also felt that two indices would achieve 2011 gains: South Korea's Kospi, and the Dow Jones Industrial Average. They think the Dow will end 2011 up about 2%. The Dow was at -5.74% YTD at the closing bell on September 30.<sup>3,4</sup>

---

\* Registered Principal Offering Securities through UNITED PLANNERS' FINANCIAL SERVICES OF AMERICA, A Limited Partnership. Member: FINRA, SIPC. JTD Financial Services and United Planners' are not affiliated.

On a particularly bullish note, Bloomberg surveyed 12 Wall Street strategists in early October and found them collectively forecasting the greatest 4Q rally in 13 years. They think that the S&P 500 will rise 15% this quarter, which would mean a push to 1,300 by New Year's Day.<sup>5</sup>

**Stocks certainly are cheap.** Bloomberg data also indicated that when the S&P nearly closed at bear market levels in early October, it was down to 12x reported earnings; valuations were lower than they had been at any point since 2009. At the end of September, the MSCI World Index was trading at just above 10x its 12-month forward earnings, well under its average of 14.3x earnings since 2001.<sup>2,5</sup>

**Some analysts are optimistic about the coming quarters.** Indeed, the 350 analysts surveyed by Reuters are envisioning some impressive bull runs. They think Russia's RTSI will advance 32% between now and mid-2012; they feel Brazil's Bovespa will rise approximately as much in the next three quarters. If you follow emerging markets, forecasts like these may not surprise you much. However, they also see double-digit advances for the Dow, Nikkei 225, All Ordinaries, CAC 40 and DAX by mid-2012.<sup>2</sup>

**Historically, stocks have had impressive resilience.** Here are two other encouraging statistics in the wake of the Dow and S&P's double-digit third quarter drops:

- The Dow had 14 quarterly losses of 10% or more in the period from 1962-2009. In 79% of the ensuing quarters, the Dow pulled off a quarterly gain.
- The S&P suffered 11 quarterly losses of 10% or more during a stretch from 1981-2009. In 80% of the following quarters, it posted a quarterly gain.<sup>6</sup>

Another 4Q rally depends on many variables, but if Greece avoids default and 3Q earnings don't disappoint, we might see a better end to 2011 than the bears anticipate.

*Frank DeMaio, CPF®, CFA\* is a Registered Representative offering securities through UNITED PLANNERS' FINANCIAL SERVICES OF AMERICA, a Limited Partnership, Member FINRA, SIPC. Frank may be reached at 603-641-1010. JTD Financial Services and United Planners' are not affiliated.*

This material was prepared by MarketingLibrary.Net Inc., and does not necessarily represent the views of United Planners Financial Services. All information is believed to be from reliable sources; however we make no representation as to its completeness or accuracy. Please note - investing involves risk, and past performance is no guarantee of future results. The publisher is not engaged in rendering legal, accounting or other professional services. If assistance is needed, the reader is advised to engage the services of a competent professional. This information should not be construed as investment, tax or legal advice and may not be relied on for the purpose of avoiding any Federal tax penalty. All indices mentioned are unmanaged and are not illustrative of any particular investment. The S&P 500 is a market-capitalization weighted index of 500 Large-Cap common stocks traded in the United States on the NYSE, AMEX and NASDAQ. The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the NYSE and the NASDAQ. International investing involves special risks, including currency fluctuations, lower liquidity, political and economic uncertainties.

#### Citations.

- 1 - moneywatch.bnet.com/investing/blog/investment-insights/stocks-ready-for-fourth-quarter-rally/2833/ [10/3/11]
- 2 - reuters.com/article/2011/09/29/us-markets-stocks-poll-idUSTRE78S4EK20110929 [9/29/11]
- 3 - montoyaregistry.com/Financial-Market.aspx?financial-market=an-introduction-to-the-stock-market&category=29 [10/7/11]
- 4 - cnbc.com/id/44729786 [9/30/11]
- 5 - bloomberg.com/news/2011-10-07/stock-index-futures-in-u-s-rally-after-employment-growth-beats-forecasts.html [10/7/11]
- 6 - cnbc.com/id/44677114/Third\_Quarter\_Pain\_Fourth\_Quarter\_Gain [9/29/11]