Looking Back, Planning Ahead

History suggests that the S&P 500 may be poised for gains during the first half of 2012.

In the past, the S&P 500 has exhibited gains following a decline comparable to the 19.4% drop that occurred between April 29, 2011, and October 3, 2011.

Take away the impact of dividends, and the S&P 500 experienced a gain of virtually zero for 2011, a lackluster performance amidst global financial uncertainty. But digging deeper reveals the wide variation in sector performance.

S&P 500 and Sector Performance for 2011

Sector	Price	Total Return
Consumer Discretionary	4.4%	6.1%
Consumer Staples	10.5%	14.0%
Energy	2.8%	4.7%
Financials	(18.4%)	(17.1%)
Health Care	10.2%	12.7%
Industrials	(2.9%)	(0.6%)
Information Technology	1.3%	2.4%
Materials	(11.6%)	(9.8%)
Telecommunication Services	0.8%	6.3%
Utilities	14.8%	19.9%
S&P 500	(0.0%)	2.1%

Source: Standard & Poor's. Investment in industry sectors may have greater risks than investment in a broad market index.

What's Next?

During periods going back to 1945, when the price-only return of the S&P 500 declined between 15% and 25%, as happened between April 29, 2011, and October 3, 2011, returns for the following three-month, six-month, and 12-month periods have been positive, although past performance does not guarantee future results.[2]

What Investors Can Do

Given the different patterns of performance seen in 2011, investors may want to consider the following when planning their allocations for 2012:

- **Maintain exposure to Asia.** China is likely to remain the global growth engine, with gross domestic product expected to increase from 8.0% to 8.5% during 2112. Growth in the euro zone is expected to be flat at best.[3]
- **Identify domestic companies with a history of profits.** Standard & Poor's anticipates that operating earnings within the S&P 500 will increase 8.5% during 2012. Although past profitability does not guarantee future earnings, cost-cutting, share repurchases, and revenue growth may keep a good portion of corporate America in the black.
- **Balance cyclical with defensive sectors.** Consider overweighting Consumer Discretionary, Information Technology, and Consumer Staples based on the easing of recessionary pressures domestically, corporate productivity improvements driven by technology, and the continued profitability expected from Consumer Staples.[4]
- **Remember dividends.** As the table on the prior page indicates, dividends can significantly boost total return, in certain cases by several percentage points during the course of a year. Dividends are not guaranteed.

There is always the possibility that an event in Europe or elsewhere could disrupt the financial markets in ways that observers currently cannot anticipate. That said, the suggestions mentioned above may help you prepare for various ups and downs during 2012.

[1]Source: Standard & Poor's.

[2]Source: S&P Capital IQ, "Outlook 2012: Catching a Second Wind," December 9, 2012.

[3]Foreign investments involve greater risks than U.S. investments, including political and economic risks and the risk of currency fluctuations, and may not be suitable for all investors.

[4]Source: S&P Capital IQ, "Tedious Tug of War," December 29, 2011.