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Prudent Portfolio:

Despite Market Volatility, Investors Have Been Rewarded in 2014

By Kevin Peters

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The Dow Jones Industrial Average began 2014 at 16,440. Stocks, and that average, then proceeded to decline for several of the subsequent trading days, darkening the holiday spirits of many investors who likely took the decline as a portent of the rest of the year.

Surprise! This month, the Dow Jones Industrial Average hovered at about 17,500, an increase of roughly 7 percent for the year, so far, that few forecast, particularly after the approximate 25 percent gain in this index in 2013. Last week it closed above 18,000 for the first time.

What a year it has been! Quite a roller coaster ride – and a tough year for those so-called market-timers, intrepid investors trying to base investment decisions on immediate activity.

October was a good example of the volatility. One day the market, as measured by the Dow, dropped by some 300 points and another day it rallied by about 275. As one analyst said, the sharp moves left investors "scratching their heads."

There certainly was considerable news to cause worry. Ukraine and Russia. Ebola. Interest rates. China and Hong Kong. Recession in Japan. There even are concerns that oil prices might be too low to support increased domestic production. (Crude oil dipped below $60 per barrel on Dec. 12.)

Despite these concerns, I continue to believe the overall trend remains upward, although along the way we will likely continue to see dips in stock prices that at times may test the nerve of long-term investors. Keep the antacid tablets handy, market-timers.

Clearly, the economy is improving. Longtime oil industry analyst Daniel Yergin has predicted, for example, that global economic output would increase by .4 percent with oil prices remaining under $80 per barrel. Now oil is below $60, a five-year low.

Employment, as well, is showing sharp improvement with the U.S. economy adding about 321,000 jobs in November alone, the biggest monthly jump in about three years. Other positive signs include a slowing of health care spending, increased federal tax receipts and a federal budget deficit below its 40-year average as measured against the economy.

The sharply improved jobs report does cause a modicum of concern if similar results are reported for December and January. The Federal Reserve could easily view the good news as the push to increase interest rates sooner than we might otherwise expect. That potential is cause for uncertainty, which is rarely in favor with investors.

Nevertheless, the stronger job market coupled with lower gasoline prices means consumers will have more money to spend. The hope is that will generate more revenue for corporate America – with a resulting boost in earnings and increased stock prices.

Improved earnings themselves can help fuel a recovering economy by allowing companies to spend on equipment, expansion and perhaps increased shareholder dividends. The long recession and nearly invisible recovery also has created many long-delayed projects including home improvements and renovations that can spike spending on construction materials and labor, not to mention appliances and furniture.

It just takes a spark to start a warming blaze and the drop in energy prices along with an improved job market could be just the spark that is needed to warm up the so-far tepid recovery.

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