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Strong equity growth seen, but caution warranted

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Stock market lore suggests that a January bull market is a good predictor of the year. Only once in 63 years did a strong January result in a lower year-end market.

Will 2013 follow the trend or be another exception? No one should make investment decisions based solely on history. A serious look at market drivers, however, highlights optimistic signs.

A recent Harvard University report predicts double-digit growth in home improvement spending. Auto sales began 2013 with a strong performance, and auto analysts forecast the best year in more than five. Equity markets seem inured to congressional wrangling.

Perhaps we are not witnessing a bubble but an improving trend. Caution and diligence remain critical. Euphoria is not in order.

Morgan Stanley Wealth Management's Global Investment Committee indicates that with continued accommodative global monetary policies, positive earnings growth should combine with other factors to drive strong equity returns this year and into 2014. As well, a bullish start to the year tends to boost investor confidence, helping annual performance — but there remain many variables on the horizon. We remain optimistic, but there is no crystal ball.

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