

Pre-Christmas rally

Markets give a gift of gains

December 24, 2009 – The bulls came out again on the night before Christmas and pushed markets to solid week-over-week gains. In the case of the Dow Jones Industrial Average and the S&P 500 Composite Index, the buying spree propelled gains to the highest closings of the year. Toronto's S&P/TSX Composite also gained on the week, but fell just short of a record close for the year to date. The Christmas stock market gift, all tied up with festive wrappings, gave investors a shot of optimism for the final week of the year, and a growing sense that 2010 will usher in a better decade for stocks overall.

The shortened trading week, of course, contributed to the upside momentum, as volumes shrank ahead of the holidays. However, a more pessimistic environment would have driven markets the other way. Instead, the optimists prevailed.

Some positive economic data added to the growing body of evidence that economic recovery is becoming more firmly entrenched. In the US, claims for jobless benefits for the week ending Dec. 19 fell by 28,000 from the previous week, more than twice as much as prior guesstimates of a decline of only 10,000 in claims.

Durable goods orders – those expected to last five years or more – rose in 0.2% in November, less than the 0.6% that had been expected, but still on the positive side. The US National Association of Realtors reported that existing home sales rose 7.4% in November from the previous month, while the median sales price rose for the first time since June.

The Commerce Dept. confirmed that the US economy grew in the third quarter, but not by quite as much as originally estimated. The final estimate for gross domestic product came in at 2.2%, down from the earlier estimate of 2.8%, mainly because of subdued consumer spending and slower business investment. Still, the positive number after four consecutive quarters of shrinking GDP indicates a solid return to growth, and sets the stage for even stronger growth for the fourth quarter.

In Canada, gross domestic product expanded 0.2% in October, the second consecutive month of growth, as 15 of the 18 broad industry sectors tracked by Statistics Canada stayed at or above the break-even point. Rock bottom interest rates and a tidal wave of government stimulus money helped to kick-start the housing market with knock effects

on consumer spending and auto sales. On the downside, however, mining and manufacturing output readings were disappointing, following a strong handoff from September. Still, consensus puts Canada's GDP on track for fourth-quarter growth of around 4%.

Canadian markets shrugged off lingering concerns about the potential for developing asset bubbles, especially in real estate, and ended a short trading week on the upside. The S&P/TSX Composite Index ended trading early on Christmas Eve, closing with four straight daily gains, for a 2.5% week-over-week advance.

The Dow Jones Industrial Average likewise advanced 1.9% on the week, while the broad-based blue-chip S&P 500 Composite Index gained 2.2% on the week.

Tellingly, investor optimism hasn't been confined to North America. With the MSCI World Index ahead more than 30% for the year to date, investor confidence has been returning on a grand scale. Even the Chicago Board Option Exchange's Volatility Index (VIX) slipped to below 20 for the first time since August 2008, indicating a lower level of implied volatility for stock markets. Cynics might argue that this is precisely the time to be most vigilant as a trend reversal could take investors by surprise in January. For now though, it looks like 2009 will close with some of the healthiest stock market gains we've seen in a couple of years. ■

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