Forecast 2012: A lot of risk, maybe some reward

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Domestic policy battles and European fiscal meltdowns brought stunning volatility to the American financial markets during 2011.

During 2012, businesses can expect more of the same.

"Our biggest issue right now is the volatility that we saw the last half of the year will stay with us in the first six months of this year," said Ralph Cole, senior vice president for Ferguson Wellman Capital Management. "Europe will drive a lot of that volatility based on their austerity packages, but whoever has to vote on those could, unfortunately, drive our markets. It's uncomfortable for us."

Cole and several other analysts, nonetheless, expect the markets to perform better in 2012 than last year. The Dow was the only one of the three to post gains, picking up 5.5 percent. Nasdaq lost 1.7 percent last year while the S&P 500 started and closed the year at 1,257.

Here are 2012 forecasts from five of the region's financial experts:

JEFF SAVAGE

Regional chief investment officer, Wells Fargo

Market outlook: Better than 2011, with key indices possibly rising by 8 percent.

Hot industries: Technology, energy and infrastructure.

Local take: Tech up, travel and entertainment down.


Savage

A wave of strong corporate earnings have lately given Savage hope. When dividends are added in, investors could collect total returns of around 10 percent.

However, "headwinds from Europe, unemployment, housing and China might make those numbers too optimistic," warned Savage, whose bank employs 138 brokers locally.

While technology and energy will remain attractive markets, Savage added that work on water, roads, schools and hospital projects will still be in demand globally.

In terms of specific investments, large companies are better positioned than small or mid-sized companies.

"Non-conventional investments such as futures, real estate, hedge funds, private equity, timber and options should do well in this environment," Savage said.

In the Northwest, chipmakers and solar industry firms should continue to grow. But woes in the entertainment and travel industries will keep Oregon's 9.1 percent unemployment rate above the national average, which is 8.6 percent.

The good news: The housing industry will slowly recover throughout the year thanks to demands for moderately priced new homes, Savage said.

FRED DICKSON

Senior Vice President/chief investment strategist, D.A. Davidson Co.

Market outlook: Volatile.

Hot industries: Internet networking technologies, mobile telecom, agribusiness.

Local take: Recovering, but very slowly.


Dickson

Four factors will serve as "significant stock market catalysts" in 2012. All of them, said Dickson, start with the letter "E:" Europe, the economy, employment and the elections.

Yet Dickson believes the Dow will end 2012 at 13,000 – it was in the 12,300 range earlier this week – and that the Standard & Poor's 500 will close at 1,325, up 5.4 percent.

"We have not seen a cyclical equity bull market abruptly end during the last 60 years," Dickson said.

Davidson projects the nation's gross domestic product will grow by 2 percent to 2.5 percent. Plus, interest rates will remain very low as the Federal Reserve tightly manages its money.

While Davidson's best sector bets remain technology-heavy, he said the firm more typically favors "late mid-cycle stocks" as opposed to specific industries.

Portland's recovery will continue to inch along as the home construction market reels. However, matters might look better toward the end of the year.

"We see the slow improvement in employment continuing in 2012 as the industrial and health care services side of the local economy continue to expand," Dickson said.

PAT BECKER JR.

President, Becker Capital Management Inc.

Market outlook: Much the same as in 2011.

Hot industries: technology, industrials and energy.

Local take: State will rise or fall based on economic growth in Asia.


Becker Jr.

Becker Jr.'s looking on the bright side.

The market, he notes, has made a "decent recovery" from the disastrous lows of 2008. Even the S&P's five-year performance is only down by 0.25 percent.

"In most cases, the U.S. stock market has been a much better investment than your home," said Becker. "We believe most investors don't realize this or missed these sort of returns."

Becker, whose firm manages $2.4 billion in assets, projects that 2012 will continue to bring uncertainty to investors. The firm hopes to combat that by adding "high-quality dividend paying stocks" to clients' portfolios.

"It's a unique investment time like many of us have never seen," Becker said. "In our opinion, its extremely important to own high quality companies. In baseball terms it's a base hit strategy."

Locally, Oregon's technology sector could drag down the region if Asian companies, to which state companies export, are affected by Europe's ongoing issues.

SID PARAKH

Senior vice president of equity research McAdams Wright Ragen

Market outlook: Largely flat.

Hot industries: Energy, health care, technology and industrials.

Local take: Good year for Seattle-area companies could bode well for Pacific Northwest.


Parakh

After a 2011 filled with thrills and chills, the financial industry can expect more of the same.

The difference is that in the end, markets will end up right where they started, said Parakh.

Parakh, whose firm employs 15 brokers, uses the term "range-bound," meaning the markets could shift a point or two in either direction when 2013 rolls around.

"Those types of issues will persist, but we hope there aren't any new (issues) to create more volatility," he said.

The Seattle-based Parakh concedes that Portland's economy rises and falls with the Pacific Northwest's.

"Here in Seattle, there's reason to be optimistic," Parakh said. "Boeing (Corp.) has record backlogs, Microsoft (Corp.) continues to hire, and Starbucks (Corp.) and Costco (Wholesale Corp.) are doing well. There are a lot of good companies here driving employment growth, and that speaks well to the region."

RALPH COLE

Senior vice president
Ferguson Wellman Capital Management

Market outlook: Volatile.

Hot industries: Health care and utilities.

Local take: Job growth will mirror national figures over the next three to six months.


Cole

At no time in Ferguson Wellman's 36 years has political bickering affected the fortunes of so many.

"It's a big deal, and watching them (in December) try to extend tax cuts, it was painful," said Cole.

Cole and other firm leaders are nonetheless hopeful that matters could improve in the second half, with the market rallying as more clarity regarding the American elections emerges. Once the elections are over, the fourth quarter could bring healthy gains.

Ferguson's team believes health care and technology, which remained big cash generators during the downturn, could remain so in the new year.

"Those sectors do have some growth aspects to them," Cole said. "Utilities would be a big defensive sector because they're stable."

Cole's firm manages $2.8 billion in assets. His team members, many of whom participate in local business advocacy groups, believe more jobs will arrive in Oregon over the next three to six months.

"We're seeing the U.S. economy pick up, and there's no way Oregon won't be included in that," he said.

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