Article Side

Market Report â€“ Year End 2011 by

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In the Rear View Mirror: Maybe it was all the Santa Claus rally the bulls could muster, but the final trading week before the Christmas holiday was a strong one as all three major U.S. indexes closed higher for the week with the Dow Jones Industrial Average and the Nasdaq soaring more than 3% each while the S&P 500 jumped to its highest levels in two weeks.

Fanning the flames of the pre-Christmas rally were two obvious catalysts. First, there was no bad news out of Europe and rare is the week that we can say that. That is not to say the European sovereign debt crisis is over and done with. Far from it. Weâ€™re simply saying last week saw no noticeable deterioration in the European situation. Second, U.S. economic data points for the week were healthy to say the least.

On Thursday, the November reading of the index of U.S. leading indicators climbed 0.5% following a 0.9% increase on October. Economists expected a November rise of just 0.3%. November reading of the index of U.S. leading indicators climbed 0.5% following a 0.9% increase on October. Economists forecast a November rise of just 0.3%.

All of those good numbers were topped by the decline in weekly jobless claims, which fell by 4,000 to 364,000 last week, well below the reading of 380,000 economists were expecting. Last weekâ€™s reading was the best since April. On Friday, the Commerce Department said durable goods orders climbed 3.8% in November, well above the 2.2% increase economists were expecting.

Market Recap

All major indices reversed their color trend for the weekâ€¦ALL FLASHING GREEN.

The markets showed improvement across the board: domestic, international, emerging, small cap, big capâ€¦all of â€˜em. The Dow, S&P 500 and Amex are back into positive territory YTD while the Nasdaq and NYSE Composite are still below last Januaryâ€™s beginning number.

Gold made a little come back of $9.10 for the week, closing at $1,604.70. Crude oil popped up $6.15, closing just under the magic $100 level at $99.68; the dollar made a very slight move upward of +0.0002 or 0.7667 euros; the 10-year bond back off 1.625 to $99.750 and the 30-year bond lost 4.156 to $101.313.

As we noted last week, itâ€™s important to not get too wrapped in the recent drops in jobless claims because a lot of that is attributable to seasonal factors. That said, the longer those numbers remain below 400,000, the better it is for the economy and stocks. Coming up on a holiday-shortened trading week, volume will likely be quite light, but barring any disappointing news out of Europe, it would appear as though stocks are poised to extend their gains into year-end and set up for a possible January rally.

The Bottom Line for Stocks

If stocks continue to move higher this week, it might be a real sign that weâ€™re going to see a legitimate version of the January Effect. For those not familiar that vernacular, the January Effect is the theory that stocks rebound in January after they have fallen or traded sideways in December AND that the January rally is led by small-caps. Of course there are no guarantees that weâ€™ll see a real January Effect in 2012, but it is worth noting that small-caps have started to perk up a bit lately.

As we said last week, the major caveat to any bullish sentiment is Europe. With Europe looming large, investors willing to roll the dice on small-caps at the current moment should do so with the utmost selectivity while making an effort to keep a portion of their portfolios in cash and large-cap, dependable dividend stocks. Boring can be beautiful and 2011 has proven that.

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