The Detroit News

2007 market is a tale of up and down times

Brian J. O'Connor
January 1, 2008

New Year's Day is the perfect time to look back at the 2007 stock market, because, in a nutshell, the market spent the last year behaving much like you did last night:

It started out with earnest hopes for a good time, soared to artificially induced highs, then stumbled into the gutter, only to wander home in confusion and wake up hung over and pretty much where it started.

In this year the Dow Jones Industrial Average soared through the 13,000 and 14,000 barriers for the first time, while also recording nearly a dozen stomach-turning one-day drops of more than 2 percent.

"We've gone from euphoria to utter fear to euphoria to fear," said Marilyn Capelli Dimitroff of Capelli Financial Services in Bloomfield Hills. "It's been quite a roller-coaster."

In the end, all the highs and lows averaged out to a net gain of a mere 6.4 percent for the Dow. The tech-heavy Nasdaq index did better - but still in the single digits at 9.8 percent - while the smaller firms of the S&P 500 posted a mere 3.5 percent gain.

Like a wrung-out New Year's reveler, an investor well may wonder: What was all the excitement about?

Going into 2007, investors looked forward to a good but not great year. They toasted a 2006 stock market that turned out much better than expected when interest rates didn't rise, oil prices didn't soar and the housing bubble didn't burst.

But all three hit with a vengeance in 2007. Oil neared $100 a barrel several times. The housing bubble? It not only burst but flooded Wall Street in red ink, prompting two interest rates cuts just to keep the global capital markets from freezing up.

But none of that happened right off the bat. In January, the Dow set one of its nine records for the year, closing above 12,600 for the first time. Markets were powered by loose money flowing from big investment deals, many based on bonds based on the nascent time bomb ticking in the U.S. subprime mortgage market.

After a brief early scare from the Chinese stock market, the Dow soared through the 13,000 to hit just over 14,000 in mid-July.

A scant 16 trading days later, though, the Dow was down 5 percent from that high as credit markets panicked over the spreading subprime mortgage crisis.

The market got a second wind in September and October, buoyed by the first of two Federal Reserve cuts but, with more reports of huge losses at investment banks and talk of $4 gas in 2008, markets tanked again in November, before bouncing around to finish the year with a modest gain.

"It was a tale of two years," said Nicholas Hopwood of Park Avenue Financial in Livonia. "The first half of the year, the story was all about the global liquidity boom, and the second half was the credit crunch."

While housing, retail and financial stocks took the biggest hits, technology and energy did well, notes David Sowerby, senior portfolio manager for Loomis, Sayles & Co. in Bloomfield Hills. But more important than the sectors that gained was sidestepping the ones that tanked.

"The key to having a good year as an investor in 2007 was what you didn't own," Sowerby said.

Michigan's economic ills were reflected in how our industries fared in the market. Homebuilders plummeted, financial stocks sank and any firm that depends on consumer spending - from Ford Motor Co. and General Motors Corp. to Borders Group and Domino's Pizza - saw sales slide.

Among Detroit's Big Three, GM stock finished down 16 percent, while Ford was off 10 percent. Former Chrysler LLC parent Daimler AG saw its stock climb after dumping its U.S. acquisition, ending up 60 percent.

Going forward, the year will revolve around the volatile troika of oil, interest rates and the busted housing bubble, investors say.

The place to look for profits is in energy and natural resources, two sectors that did well in 2007, advises David Kudla, CEO of Mainstay Capital Management in Grand Blanc. He also is focusing on commodities that are in demand in the global market.

"It's not just about the U.S. any more," Kudla said. "You can have a slowing economy in our market, but there still are plenty of profitable investments in the large-caps and mega-caps that do a lot of business overseas, as well as foreign stocks in emerging markets."

Hopwood recommends looking at value stocks, not growth, and concentrating on large firms.

Sowerby said he thinks later this year will be a good time to go bottom-fishing among the beaten-up shares of financial and cyclical consumer-goods companies.

For her part, Dimitroff says that besides keeping your investments fully diversified, the only approach is to expect the unexpected. While oil and the mortgage mess will continue to influence stocks in 2008, those factors already are known.

"The things that move the market are things that haven't occurred," Dimitroff said, "and therefore are unknowable."

And so, like rueful New Year's partiers everywhere this morning, the market turns a bleary eye to the future.