

# Inside Business

The Hampton Roads Business Journal | Insidebiz.com

January 15, 2012

\$1.00

## *The Year Ahead: what's in store for 2012*

By Jim Flinchum



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For the second year in a row, the U.S. will be the best-looking horse in the glue factory, which means the dollar will remain strong for a while. For the fourth time in the last five years, the political tail will wag the economic body of the world, meaning politicians are more important than "job-creators." But, the first half of the year will be very different than the second half.

The U.S. economy will not go into recession, unless pulled into one by a depression in Europe, which is already in recession. Our GDP will continue to grow, albeit slowly at about 2 percent during the first half, increasing to 3 percent in the second half. Our unemployment picture will continue to improve, despite the fact that the unemployment rate will actually increase.

Residential real estate will be only marginally improved. The emerging nations will continue to enjoy operational

advantages over the developed nations, but inflation will become a bigger problem, which the U.S. will begin importing with our imports from those nations.

The government of the U.S. is almost as useless as the "government" of Europe. Our Fed Head Ben Bernanke recognized the uselessness of our government and acted alone to save the U.S. economy. The new head of the European Central Bank is Mario Draghi. When he recognizes the uselessness of European government, he will have to act alone to save the European economy. Unfortunately, the bond vigilantes will not give him much time. Within six months, he will be forced to "save" Europe.

In the long run, however, good monetary policy can never fix bad fiscal policy.

The stock market hates the uncertainty of presidential election years. Historically, presidential election years tend to be good years for the market, but the market rise begins later in the year. The sooner the winner becomes obvious to the market, the sooner the market will rise. How much it rises will be influenced by who the winner is.

Modern investment theory tells us that different asset classes, e.g., large companies, bonds, commodities, etc. will not change value at the same time or in the same direction. That theory will be wrong for the fourth time in the last five years, as the precarious state of world politics overwhelms everything else.

Before Europe pulls out of its nose dive and the U.S. presidential election reduces uncertainty, I expect the Dow will approach 10,000 points but not below, and that the euro will drop to \$1.22, driving up the dollar. Both currencies will reverse before year-end.

While 2012 will be an emotional roller-coaster, the politics, the economics and the stock market will all look much better late in the year.

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