The Markets

Which stock characteristic most impacted the S&P 500's performance in 2011?

To answer that question, Bespoke Investment Group performed an analysis and concluded that having a high dividend yield was the most important factor affecting stock prices in 2011. The study concluded that the three top yielding deciles of the S&P 500 averaged gains for 2011 while the seven deciles with either lower or no dividends yields averaged losses for the year.

Now, it won't always turn out that the highest yielding stocks will be the best performers. Some years, investors will be more adventurous and bid up the riskier stocks that tend to pay low or no dividends. However, dividends matter. They provide a solid foundation in a total return portfolio that may help reduce volatility and provide some inflation protection to an investor's cash flow.

Will the tide turn in 2012 and see the outperformance of the low or no dividend stocks? A lot will depend on how the economy shakes out.

Based on last week's unemployment report, it looks like we may have ended 2011 with some modest economic strength. The U.S. economy added 200,000 jobs in December and the unemployment rate dropped to 8.5 percent, the lowest "official" rate in almost three years. Also, it's important to know that employment statistics may have been distorted at year end by people temporarily giving up looking for work. Also, a number of the leading indicators we track remain weak. As a result, we continue to maintain our conservative equity position.

This week marks the beginning of another quarterly earnings season so the next 30 days or so could be volatile and should give us a good indication of corporate management's opinion of the strength of the underlying economy.

WERE THE "NIFTY-FIFTY" REALLY THAT NIFTY? Back in the early 1970s, pundits fawned over some of the era's fastest growing, industry-leading companies who seemed to defy the sluggish overall economy. Dubbed the Nifty-Fifty, these glamour stocks were well-known "one-decision" stocks that institutional investors clamored to own. So, how well did these stocks do over the last 40 years? Were they truly "one-decision" stocks?

While there was no official list of the Nifty-Fifty, two competing lists of 50 stocks are commonly cited, according to a research report titled, "The Nifty-Fifty Re-Revisited," by Jeff Fesenmaier and Gary Smith of Pomona College. For today's purpose, we'll look at the 24 stocks that made both lists and were dubbed the "Terrific 24" by Fesenmaier and Smith.

Some of the household names on the Terrific 24 list include: McDonald's, Walt Disney, Avon, Johnson and Johnson, and Coca-Cola. These companies are still doing well. However, some other household names on the Terrific 24 list performed poorly. Consider the following:

Xerox: It's still around, but is a shadow of its former self and trades for about $8 per share.

MGIC Investment Corp: It went through various corporate restructurings throughout the years, but is still around as a private mortgage insurer. However, it got battered in the mortgage insurance meltdown of recent years and trades for about $4 per share.

Polaroid: The inventor of instant film couldn't make the transition to a new world of digital photography and filed for bankruptcy in 2001.

Eastman Kodak: Perhaps the saddest story of the bunch, Kodak has struggled for years to make the transition to a digital world and is now rumored to file for bankruptcy as early as this month, according to Reuters. Its stock sold for less than 50 cents per share last week. Ironically, Kodak invented the digital camera in 1975, but was never able to capitalize on it.

With 40 years of history, here are three key lessons we can learn from the Nifty-Fifty story:

1. Some "glamour" stocks do remain glamorous for many years, e.g, McDonald's, Walt Disney, and Coca-Cola (although each had its "rough periods" over the past 40 years).

2. Promoting "one-decision" stocks is more of a headline-grabbing marketing strategy than a sound investment policy.

3. Even the "best" stocks can fall to zero, so it's important to have a sell discipline.

As the British statesman and philosopher Edmund Burke said, "Those who don't know history are destined to repeat it."

Weekly Focus - Think About It

"The supreme purpose of history is a better world." --Herbert Hoover, U.S. President

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Notes

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Past performance does not guarantee future results.

You cannot invest directly in an index.

Consult your financial professional before making any investment decisions.