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Next year could be better for auto stocks

By Susan Tompor (excerpt)
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Nobody is going to put auto stocks at the top of any list of the fun financial highlights of 2011.

"It's actually been a frustrating year," said Efraim Levy, auto equity analyst for Standard & Poor's Capital IQ. "The stocks came into the year with bright prospects."

But the Lady Gaga-style, over-the-top auto-stocks party of 2010 turned into something of a down-and-out-in-Motown event in 2011.

Consider this: In 2010, the Standard & Poor's auto manufacturers index was up 65.4% and the auto parts and equipment index was up 53.9%. By comparison, the S&P 500 index was up just 12.8% last year.

But this year, the S&P 500 was down 3% through Dec. 16; the auto manufacturers' index was down 38.8% and the auto parts and equipment index off 19.4%.

Amazingly, auto stocks took off at a fairly healthy clip early in 2011.

CNBC's Jim Cramer even taped his "Mad Money" show at the body shop of the Dearborn Truck Plant on Jan. 12 -- dubbing Ford CEO Alan Mulally "the greatest turnaround artist of all time."

Cramer's take then: He said Ford -- trading around $18 a share back in January -- had more room to go after a strong run in 2010 and could hit $36 a share in a few years as Ford took market share from others, including General Motors. General Motors closed 2010 at $36.86 a share and shot up to $38.98 by Jan. 7.

Yet, 2011 turned out to be full of detours, dead-ends and roadblocks. Everybody seemed to find a reason to delay buying a car or to fret about auto stocks.

By Dec. 21, Ford closed at $10.66 a share -- down nearly 37% for the year. GM was at $20.32 -- off nearly 45% from its 2010 close.

We saw reduced auto inventories triggered by Japan's March earthquake and tsunami that kept consumers out of showrooms; a high-stakes debt debate in Washington that made some consumers and business owners reluctant to spend; growing fear of a double-dip recession; the debt debacle in Europe, and continued fear about a deeper, global economic downturn.

"It was basically a series of negative surprises and fears," Levy said.

CNBC's Cramer's revised take: Ford's earnings profile changed dramatically.

"The company earned much less than I thought," he told me in an e-mail. "I was wrong."

Cramer had based that $36 stock price on forecasts of an auto industry selling 16 million cars and light trucks in 2013 in North America -- up from 11.6 million in 2010 -- and Ford reaching 19% market share.

The North American auto industry is expected to sell 12.7 million to 12.8 million cars and light trucks in 2011.

Cramer added that all he would say now is that Ford is a good stock, if Europe turns around.

Investors have been reluctant to load up on auto stocks, in part, because demand for cars in Spain and other European countries is expected to be sluggish in 2012 -- and that has held back auto stock prices.

Levy, however, says the direction for auto stocks in 2012 is still upward.

His general thesis is that the auto industry is in the early stages of a multiyear up trend in sales in the U.S. and globally.

Many cars on the road now, he noted, are very old and will need to be replaced.

Levy has a strong-buy rating on GM and a buy rating on Ford. His 12-month target for GM is $34; for Ford, it's $15.

David Kudla, CEO and chief investment strategist for Mainstay Capital Management in Grand Blanc, said he, too, has been telling clients that both GM and Ford stock could do well in 2012.

Many business-oriented TV shows advocate that investors look toward high-quality companies that pay dividends, which Ford will begin doing -- 5 cents per share -- in March for shareholders of record on Jan. 31.

Will 2012 be a rock-and-roll year for auto stocks, like 2010 was? Extremely doubtful.

But if investors are lucky, next year could prove better than the downer year auto stocks went through in 2011.

Stocks face a bumpy ride in 2012, experts say

After the swings of 2011, Wall Street gurus see, unfortunately, more of the same ups and downs for stocks in 2012.

On the upside, the U.S. economy is less likely to fall into a double-dip recession, experts say. Economists expect a U.S. recovery to continue into 2012 -- though at only half the pace we'd like.

On the downside, the idea of the "rolling crisis" on Wall Street continues.

"We remain cautiously optimistic and it seems very possible that the stock market could have good returns in 2012," said Bill Stone, chief investment strategist for PNC Wealth Management in Philadelphia.

"Unfortunately we would expect the volatility to continue into 2012 as the European crisis is likely to linger," Stone said. …

…David Kudla, CEO and chief investment strategist for Mainstay Capital Management in Grand Blanc, agreed that Europe will continue to be an issue for auto stocks, too.

"We're not out of the woods in Europe yet," Kudla said. "We think the U.S. economy is going to kind of muddle along."

But he said Ford's 5-cent quarterly dividend does give investors some cushion.

Some analysts say reinstating a dividend shows that Ford may have internal confidence in its cash flow despite what happens in Europe. …