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As mentioned in last month's issue of the Fortnighter, 2012 turned out to be a surprisingly good year for the equity markets - both here and abroad.

Interestingly, Canada's stock markets again turned out to be one of the developed world's laggards. The TSX index rose about 4% over the course of the year, with another 3% or so coming from dividends. The main US indices, such as the Dow and the S&P 500, came in about 5% above that - even a number of the European bourses (and the Nikkei of Japan!!!) had solid gains.

It's now been 4 YEARS since equity markets bottomed after the financial crisis of 2007/2008. And yes, stock markets in general are only now re-testing their highs, but 4 years would suggest a well-established trend. And there's an old saying in the investment business that "the trend is your friend".

My observation in the first 5 weeks of 2013 is that most individual investors have been quite shocked to hear how well the equity markets performed in 2012. After all, the headlines were a never-ending parade of gloom about the European financial crisis, fiscal cliff, US real estate and a Chinese slowdown. But while individual investors were worrying themselves sick over the morning's financial section, institutional investors continued to gamely pour over book values, cash-flow ratios and insider buying statistics. They saw value and were buying.

It's a cold, hard reality that most of the information available to individual investors is "stale dated". And coupled with that pesky thing called "emotions", many of us are driven to make financial decisions that are often the reverse of what we should do (it's one of the reasons that statistically, individuals left to themselves dramatically under-perform the markets over time).

I believe the performance of the world's equity markets will be a little more muted in 2013 – but one thing I would be surprised to see would be equity returns that are less than the yield on cash, GICs and government bonds. And the best way to participate in the traditionally higher returns provided by stocks is to include them in a balanced portfolio and run it like an institutional investor. That means structuring your portfolio according to a risk and return-appropriate asset allocation model and having a systematic plan in place for putting new money to work.

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