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A wild 2011 forecast?

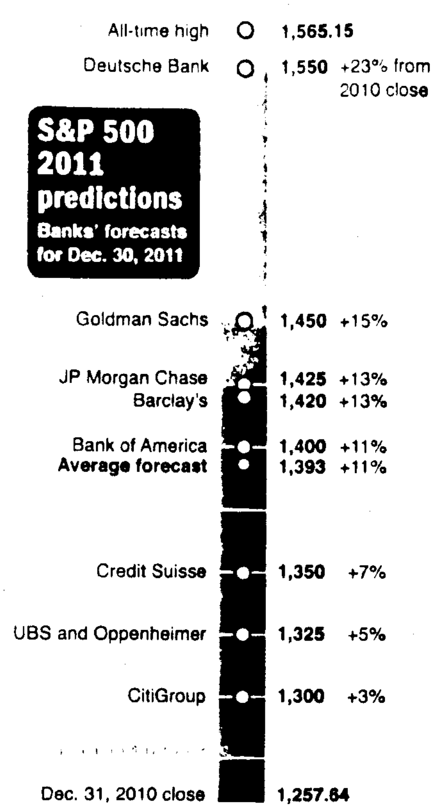
Many of the investment strategists who make forecasts for the stock market are giddy about this year. Deutsche Bank makes even those optimists seem to be wet blankets.

Deutsche predicts that by the end of 2011, the S&P 500 will hit 1,550, up 23 percent from its 2010 close of 1,257.64. Forecasts of other big brokerages range from 1,300 to 1,450.

The bank's reasons:

- Stocks are attractive because the S&P 500 is still down 18 percent from its high of 1,565.15, reached in October 2007.
- Individual investors have been pulling money out of bonds and are starting to put more into stocks. Deutsche expects that trend to continue.
- The strategists expect S&P 500 companies to earn 25 percent more this year as the U.S. economy strengthens. The bank predicts the economy will grow 3 percent in 2011 as banks lend more and employers start hiring more workers.
- History is on the market's side. Keith Parker, an equity strategist at Deutsche, says the bank's earnings forecast is typical for the third year of a presidency, when stocks tend to do well. Since 1928, the S&P 500 has averaged a 14 percent gain in those years.

A caveat: If stocks start rising sharply and look like they're going to prove that Deutsche's forecast is right, the market could become vulnerable to a big drop. Barry Knapp, a Barclay's economist, warns that bad economic news could hit the market hard – as it did in the spring and summer of 2010.



SOURCES: the banks

Francesca Levy, Elizabeth Gramling • AP

Gross sees trouble ahead for Treasurys

Interview with Pacific Investment Management Co. co-founder **Bill Gross**

Bill Gross is so bearish about the U.S. bond market that his fund has sold its Treasury bonds and notes. And his fund is the world's biggest bond fund, the PIMCO Total Return fund, with $237 billion in assets. He recommends that other investors follow his fund's example.

Treasury prices are likely to take a hard fall when the Federal Reserve's bond-buying program ends June 30, Gross says. "When the Fed stops buying, who will take their place?" No foreign country, fund manager or other investor has the ability or desire to replace the Fed's $75 billion in monthly purchases, he says. It will take a large jump in yields to draw buyers back.

So Total Return by last week had dumped its bonds and notes. It still has Treasury bills, mortgages, and foreign bonds among its holdings. The fund can also own stocks.

Yet Gross is also wary about stocks. The Fed's purchases have kept interest rates low. That has helped the S&P 500 rise 22 percent since Chairman Ben Bernanke dropped hints about the program last August. But the Fed's support for the economy is "artificial," Gross says. Take that away and bond and stock markets "could have a shock."

His advice: Look overseas. Gross recommends companies like Coca-Cola. It gets about three-quarters of its revenue outside the U.S. If you want bonds, look for countries that don't have heavy debt loads like the U.S., Brazil, South Korea and Indonesia.

Bill Gross is one of the founders of Pacific Investment Management Co. and manages its Total Return fund. Gross is the closest thing the bond market has to a celebrity. Morningstar named him bond fund manager of the decade for 2000-09.

PIMCO Total Return (PTTAX)

Assets	$237 billion
Sales charge	3.75%
Expense ratio	0.9%
Min. initial investment	$1,000
1-year return	7%
3-year return (annualized)	8%
5-year return (annualized)	8%
10-year return (annualized)	7%

Data through March 11

Matt Craft, Elizabeth Gramling • AP