A year ago, we predicted 4% real GDP growth in 2011 and a 14,500 Dow by year-end. We were too optimistic.

Real GDP grew just 1.2% annualized during the first three quarters of 2011. This will climb to about 1.75% if the consensus forecast is right about Q4. The Dow finished the year at 12,218, well off its high for the year of 12,928.

This isn’t the first time we have missed a forecast, and it won’t be the last. The good news is that our optimism actually paid off. Back in September, when the stock market had corrected by about 16% and conventional wisdom had completely bought into the idea of a double-dip recession, we held to our convictions. We begged investors to hold the line and maintain positions in stocks.

The economy avoided recession and accelerated, while the stock market had one of its best October’s ever. Those who hung in there did no worse than money market funds. Yes, already over-valued gold was up 10% for the year, while municipal and Treasury bonds had nice returns, but holding a diversified stock portfolio, especially of dividend paying stocks, did not hurt anyone.

So here we go again. For 2012, we are forecasting 3% real GDP growth and an 18% rise in broad stock market prices. We expect the Dow Jones Industrial Average to rise to 14,500, with the S&P 500 targeted for 1475. The private sector is still paying down debt, but doing so more slowly than before. As a result, purchasing power can grow faster than income, not slower.

We do not worry about consumer confidence. We do not subscribe to the view that the US is on the cusp of a collapse in the dollar and hyper-inflation. We don’t believe that there is a fundamental weakness in the economy.

The story isn’t complicated. When government tilts toward redistribution, the growth rate of potential GDP slows down. This hurts job creation. Big government always hurts economic performance. We should have more fairly accounted for this in our forecast last year.

Some will ask: Then how can you forecast 3% growth in 2012? The answer is relatively simple. 1) The Fed is even more accommodative today than it was last year. 2) Government spending will be basically flat in 2012 for the third consecutive year. 3) Technology continues to advance. These developments mean the tailwinds are stronger at the same time the headwinds are diminishing.

That’s enough reason for us to maintain our optimism for the year ahead. Let’s try it again in 2012.

We Were Too Optimistic

Consensus forecasts come from Bloomberg. This report was prepared by First Trust Advisors L. P., and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.