Can we be still hanging on the Cliff?

NEW YORK (AP) -- The stock market shot higher on Monday even as the "fiscal cliff" neared. By the time trading ended, Republicans and Democrats still hadn't reached a budget compromise - but investors were betting that they would.

It was a dramatic day on what turned out to be a strong year for stocks. The Standard & Poor's 500 index rose 13.4 percent for the year, after finishing flat in 2011. It was the index's best year since 2009, and it came despite overhanging problems like Europe's debt crisis and anemic U.S. growth, bringing U.S. indexes close to their highs reached before the 2008 financial crisis.

Including dividends, the gain for the S&P 500 was even higher - 16 percent.

The close Monday was a high note in what had been a choppy day for the market, as choppy as the "fiscal cliff" deal-making that has been yanking it around. It also marked a turnaround after five straight days of "cliff"-influenced losses. The Dow Jones industrial average and the Standard & Poor's 500 both climbed more than 1 percent. The Nasdaq composite index rose 2 percent.

Stocks fell at the opening of trading Monday and struggled for direction throughout the morning. The indecisiveness overlaid a day of dramatic budget negotiations in Washington, where lawmakers were trying to hammer out a new budget deal to avert the "fiscal cliff." That refers to automatic tax increases and government spending cuts that will kick in without a budget deal.

Stocks jerked higher at midday following reports that the bare outline of a deal to avoid the "cliff" had been knit together. The gains faded after President Barack Obama said in the early afternoon that a compromise was "within sight," but not finalized. Then, in the late afternoon, the indexes shot higher again. Congressional Republicans and the Democratic White House said they had agreed on some measures, but still had no final deal in hand.

At the close of trading, Dow Jones industrial average was up 166.03 points, finishing the year at 13,104.14. That's a gain of 7.3 percent for the year, its fourth straight year of gains.

The S&P 500 rose 23.76 to 1,426.19. The Nasdaq composite climbed 59.20 to 3,019.51. For the year the Nasdaq rose 15.9 percent.

With the "fiscal cliff" still closing in, investors' opinions about its potential impact varied, making its long-term effect on the market hard to guess.

Some investors are unruffled. They think that even if the U.S. does go over the "cliff," it would be more akin to the anti-climactic Y2K scare than a true Armageddon. The "cliff's" impact would be felt only gradually, they reason. For example, workers might get more taxes withheld from their first couple of paychecks in the new year, but it's not as if they'd have to pay all their higher taxes up front on Tuesday. And Congress could always retroactively repeal those higher taxes.

Others are more concerned. The higher taxes and lower government spending could take more than $600 billion out of the U.S. economy and send it back into recession. Investors would have no good read on the country's long-term policy for taxes and spending.

The psychological impact - the U.S. would essentially be broadcasting that its lawmakers can't compromise - would also hurt.

"We're having a fragile recovery, with the pain of 2008 still fresh on everybody's mind," said Joe Heider, principal at Rehmann Group outside Cleveland. "It's fear of the unknown. And fear is one of the greatest drivers of the financial markets."

Tim Speiss, partner in charge of the personal wealth advisers practice at EisnerAmper in New York, followed the "cliff" negotiations on Monday and wondered if the U.S. would get its debt rating cut again. The Standard & Poor's ratings agency cut its rating of the U.S. government amid similar negotiations in August 2011, when lawmakers were arguing over the government's borrowing limit. S&P said at the time that the "political brinksmanship" highlighted how "America's governance and policymaking (is) becoming less stable, less effective, and less predictable." Its rating cut sent the stock market into a tailspin.

The other major ratings agencies, Moody's and Fitch, have suggested that they might lower their ratings of the U.S. because of the "fiscal cliff."

"That is, unfortunately, the big story," Speiss said.

It's also one of the only stories. There's been little other news to trade on during the holiday season, giving the "fiscal cliff" drama outsized influence. No major companies are scheduled to report earnings this week. The most significant economic indicator scheduled for this week, the government's monthly jobs report, won't be released until Friday.

The yield on the benchmark 10-year Treasury note rose to 1.76 percent from 1.70 percent late Friday, a sign that investors were moving money into stocks.

Some of the best-performing stocks for the year were those that were making up for deep losses in 2011. Homebuilder PulteGroup nearly tripled after falling for five of the previous six years. Appliance maker Whirlpool and Bank of America more than doubled over the year, after falling by double-digit percentages in 2011.

Some of the worst performers of 2012 were Best Buy, Hewlett-Packard and J.C. Penney. All are struggling to keep up with competitors who have adapted more quickly to changing technologies and customer tastes. They were all up for the day, but were all down at least 44 percent for the year.