Rochester Financial Services

Fee-Only® Financial Management Services

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April 6, 2014

Dow Jones	S&P 500	NASDAQ	Russell 2000	10 yr Treas	Earnings Yield (S&P)	Gold	Crude Oil
16,413	1,865	4,128	1,153	2.72%	6.22%	$1,304	$101.14

Investment Strategy Report

Is It Time to Get Nervous Yet?

It usually takes a week or two of negative price action for investors to start to lose faith in the stock market. This past week it took just one bad day on Friday for the stock market faithful to begin to get nervous.

After getting off to a sour start in 2014, the S&P 500, which sat at a minus 5.7% return for the year on Feb. 3rd, has been able to erase those losses and move solidly into positive territory. And on Friday, in the face of a favorable March non-farm payrolls report, the stock market continued to hit all time highs with the S&P 500 hitting an intra-day record of 1897. However, by 11 am, the positive momentum had begun to fade and the S&P 500 continued its slide all day, finishing at 1865, down 1.25%.

The most disconcerting aspect of Friday's stock sell-off was the action of the tech heavy Nasdaq and small cap Russell 2000 indexes. The Nasdaq dropped a very large 110 points, down 2.6% for the day. The Russell 2000 fell 2.3%. While the S&P now sits only 1.4% off its April 2nd closing high, the Nasdaq is now 5.3% off of its March 5th closing high and the Russell 2000 is 4.6% off of its March 4 high. As I mentioned in last month's letter, these two indexes were leading the charge to the upside as the market was rallying. *"Another positive factor is that the leaders in this move higher are the more aggressive areas of the market, the small caps and tech heavy Nasdaq. This is not a rally led by defensive issues. It seems like the risk-on trade is alive and well"*. If the market leaders are now leading the market to the downside, is the market rally ending and is this the start of the risk-off trade? Or is this the beginning of a market rotation where the more defensive issues, i.e., the value stocks, begin to outperform?

Most of the damage thus far has occurred with the market high fliers, companies like Netflix, Amazon.com, etc., that have seen their prices soar over the past year. So maybe this is the beginning of a "healthy" correction, a correction that removes the froth from the market and rewards those companies with solid fundamentals and reasonable valuations.

Despite the nervousness that has recently crept back into the market, the fundamentals of our economy continue to look good. It now appears that the sluggish economic data that we were observing the last few months were in fact partly due to the unusually bad weather this winter. This past Friday's job report was solid, showing that 192,000 new jobs were added in March and that the January and February reports were revised upwards to the tune of an additional 37,000 jobs.

Auto sales continue to do well, as have durable goods orders (orders for goods and appliances expected to last more than 3 years). Non-residential construction activity for the next year appears to be on track for good growth. Businesses are increasing their inventory levels as sales are increasing, a sign that businesses are optimistic. As Dr. David Efrig of Stansberry Research recently wrote, "Based purely on economic factors, everything is steadily improving and generating the sort of momentum that allows the economy to sustain itself. The risk of the US economy backsliding into a recession is extremely low". And we also have to remember that the central banks across the globe continue to practice very accommodative policies, another factor that will serve to bolster the world's economies and therefore their stock prices.

Of course, all this good news doesn't mean that I don't worry. I worry about our investments and I want to make sure that if sector rotations do occur, that we are in the right sectors. If growth begins to lag, it might be time to make a shift towards value. I also have been threatening for a while to begin increasing our exposure to international and emerging markets. With a recent rebound in emerging markets and words coming from the European Central Bank that they may be providing more monetary stimulus, the time to increase our exposure in these areas might be sooner rather than later.

Last Chance for IRA Contributions - We're down to the wire now for those of you who want to make an IRA contribution for 2013 but haven't done it yet. Give me a call and I'll try to help you make that last minute contribution. *Jeff Feldman*

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