

# Rochester Financial Services

Fee-Only® Financial Management Services

Jeffrey Feldman Ph.D., CFP

Certified Financial Planner

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Dow Jones	S&P 500	NASDAQ	Russell 2000	10 yr Treas	Earnings Yield (S&P)	Crude Oil	Gold
12,400	1,333	2,789	849	3.42%	7.02	\$108.32	\$1,435

Principal



## Investment Strategy Report

### Disasters and Mid East Conflict Can't Keep This Market Down

The Dow Jones Industrial Average closed at a new recovery high of 12,400 today, completely wiping out the losses of the late February to mid March stock market swoon. A month ago, stocks were fighting against higher oil prices, Mid East revolts, and financial problems in Europe and here in the US. The tragedy in Japan on March 11th caused panic in the markets that took the averages down to their correction lows on March 16th. However, in the face of all that adversity, the stock market has rebounded. Some would say that the market is showing incredible resilience and it would be hard to argue with that. Even today, with the battle continuing to contain the radioactive leaks from the Japanese nuclear reactors, stocks are moving higher.

With plenty of bad news to keep our attention, it seems that investors are instead focusing on the positive. Let's start with the jobs picture. Last Friday's employment report was the second consecutive report showing solid gains. 216,000 new jobs were added and the unemployment rate dropped to 8.8%. While still high, this was the lowest rate in 2 years. The improving jobs picture might be the reason that consumer spending increased by 0.7% in February, the eighth straight monthly increase and the largest gain since October. A strong consumer is essential for the economic recovery to continue.

Louis Navellier wrote in his column today that he feels that stocks are undervalued. With interest rates still near record lows, companies can borrow at low rates to invest in their businesses, increase their dividends, and /or buy back company stock, all ways to increase shareholder value. Merger mania is coming back to Wall Street, another indication that stocks are cheap and are therefore acquisition targets for competitors looking for value. While many feel that the Wall Street bulls are complacent, ignoring all the risks out there, Jim Cramer stated last week just the opposite. The bears are ignoring all the good news, he said, the outstanding earnings reports and the high level of cash on corporate balance sheets. With interest rates at such low levels, money is flowing out of the bond market and into the stock market, another factor contributing to the market's uptrend.

Yet while it appears that this uptrend has legs, we mustn't forget that the problems out there are real. Bill Gross, the manager of the largest bond fund in the world, last week wrote in his April 2011 monthly Investment Outlook (PIMCO.com) "Unless entitlements are substantially reformed, I am confident that this country will default on its debt; I have been selling Treasuries because they have little value within the context of a \$75 trillion total debt burden". While he does not feel that this a short term danger, obviously our country has to face some difficult problems ahead which will have a significant impact on the stock market and the economic prosperity of our country.

**Gold, Emerging Markets and Bonds** - Let's start with emerging markets because the news there looks good. In last month's letter I mentioned that while those stock markets hadn't begun to recover, at least they were stabilizing and no longer falling. My patience, for now has paid off, since the emerging market fund I have been using was up 6.4% in March while the S&P 500 was flat. And this trend has continued for the first 2 trading days of April. I will continue to add here, especially for those clients who might be underinvested. It looks like the trend from last year, where these markets outperformed, is back. Gold also has been acting well. While it and the stocks of gold miners also corrected along with the stock market, they both have rebounded nicely. It appears that precious metals will continue to play a role as a safe haven, as sovereign debt continues to grow throughout the world. Turning to interest rates, my objective for a while now has been to protect against rising rates and to design our fixed income portfolios accordingly. The yield on the 5 year Treasury began March rising to 2.30% on March 3rd. By March 16th, as the flight to safety reached its high point, the yield dropped to 1.86%. However, the yield has since risen, closing today at 2.20%. So I will continue my fixed income strategy of investing in bond funds that will do well in a rising interest rate environment.

**Tax Time** - Taxes are due April 18th this year. If you need any help with your taxes or want to make an IRA contribution please let me know. *Jeff Feldman*

Tel: 585 / 442-7580  
Fax: 585 / 473-9947  
Email: jmfeld@aol.com

7 Hastings Circle, Pittsford, NY 14534  
<http://www.rochesterfinancial.com>



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