## Rochester Financial Services

*Fee-Only® Financial Management Services*

**Jeffrey Feldman** Ph.D., CFP
Certified Financial Planner
Principal


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| Dow Jones | S&P 500 | NASDAQ | Russell 2000 | 10 yr Treas | Earnings Yield (S&P) | Gold | Crude Oil |
|---|---|---|---|---|---|---|---|
| 14,579 | 1,569 | 3,268 | 952 | 1.85% | 6.76% | $1,597 | $97.60 |

# *Investment Strategy Report*

## *S&P 500 Joins Dow At All Time High at Quarter Close*

In last month's letter I made it clear that despite a new all time high on the Dow, I still thought that stock prices could continue to move higher. And today, the stock averages sit about 2% higher from where they were back then. Not a huge advance, but enough to help the S&P 500 join the Dow at record high territory. The slow steady grind higher continues. What makes the stock market's performance even more impressive is that the gains from the last 2 weeks have come despite another potential powder keg arising in Europe, this time in Cyprus.

I specifically mentioned last month that although stock prices should move higher in the long term, 1) the stock market is definitely ready for a pause, and 2) we should do fine unless some exogenous event occurs, e.g. the collapse of the European Union. The events of the past 2 weeks in Cyprus should have been a perfect excuse for stocks to retrench. Overbought markets usually continue to move higher until some event occurs, causing investors to sell and lock in profits. The events in Cyprus at worst caused a 3 day losing streak in which the markets declined about 1%. Not much more than a hiccup.

But before you dismiss Cyprus as just another false alarm, investors should be aware that the situation in Europe is potentially very scary. One preliminary solution to the Cyprus problem was going to be that even insured bank deposits were going to suffer 10% losses. Now it appears that only uninsured deposits, accounts over 100,000 euros, will face losses. But any solution that destroys investor confidence in the banking system can lead to dire consequences. And it's not just the banks in Cyprus and southern Europe that face problems. David Stockman recently pointed out that "German banks are as bad or worse than the French. Did you know that Deutsche Bank is levered 60:1 ..?" Even the hint that nervous depositors would panic and cause bank runs throughout Europe could lead to significant damage to the financial system. My "canary in the coal mine" European bank, Spain's Banco Santander (SAN) is down 12% in the last 2 weeks. And interest rates on the sovereign bonds of Spain and Italy have begun to rise again, after coming down nicely during the second half of last year.

And just in case I haven't gotten you just a little nervous, Jeff Clark from StansberryResearch.com, one of the better technical analysts out there, wrote this past Thursday "Get Out Before the Crowd". He notes how similarly stocks have performed this year vs. last, both in terms of price and their technical indictors. He believes that there is a good chance that last year's market decline in late April to early June that wiped out the year's gains can be repeated again this year.

Another technical service I subscribe to is Jason Goepfert's Sentimentrader.com. I have often discussed that there are many contrarian features of the stock market. The major one is that when investors are very confident that stock prices will move higher, that is generally a negative for the market. Conversely, when investors are fearful and even are feeling panicky, that is generally a positive for the market. His studies currently show that although the stock averages are at all time highs, the "short term sentiment picture remains amazingly apathetic. We still have a lack of overly optimistic extremes and prices that are doing exactly what they "should" do. According to the work we do, we still see little justification for a higher risk level." His current risk level is at "5" on a scale of 1 to 10 with 10 being very risky. The bottom line is that the stock market continues to climb the wall of worry.

Lastly, turning to economic data on the home front, the 2 pillars of our economic recovery, housing and employment continue to improve. Last month's Non-farm Payroll report showed a solid gain of 236,000 new jobs in February, much higher than the 150-160,000 jobs that were expected. And continuing claims for unemployment are now averaging about 345,000 a week, well under the 400,000 level that we were experiencing a year ago. The housing data also continues to improve. Demand for homes is high, resulting in a very low 4.4 month inventory of new homes and causing prices to continue to move higher. The economic recovery in the US continues. *Jeff Feldman*


Tel: 585 / 442-7580
Fax: 585 / 351-2458
Email: jmfeld@aol.com

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