Rochester Financial Services

Fee-Only® Financial Management Services

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Dow Jones	S&P 500	NASDAQ	Russell 2000	10 yr Treas	Earnings Yield (S&P)	Gold	Crude Oil
17,763	2,067	4,887	1,256	1.84%	6.29%	$1,201	$49.14

Investment Strategy Report

Stocks Recover Than Fall in March. Waiting For a Reaction To The Weak Jobs Report

Stocks hit an all time high in March but couldn't take the strong jobs report on March 6th. Following those better than expected numbers, the markets fell and then entered into a trading range. The S&P 500 ended this past Thursday (4/2) down about 2.5% from its all time March 2nd high. While the markets were closed this past Friday, the March jobs report was released, this time with an unexpected low number of only 126,000 new jobs added (compared to 295,000 for February).

Tomorrow (Monday) will be the first trading day since Friday's report and it's anyone's guess as to how the markets will react. We're still in that unclear period of not knowing whether good news is good or bad for stocks. Does good news mean that the Fed will begin increasing rates and therefore bad news? If stocks couldn't find their footing following last month's strong report, will they shoot higher following this month's poor report?

As I mentioned last month, rising rates should not be a concern for investors. At the time, the 10 year yield had surged to 2.24% and I asked the question "Are yields going to rise instead of fall?" My answer was "no", reasoning that with comparable European bonds yielding significantly less than 0.5%, US bond yields could not move higher. Today, with the 10 year Treasury yield dropping 40 basis points to 1.84%, it seems that the risk of rising rates is off the table for now.

With that established, investors now don't have to fear good economic news, and this will help to support stock prices. This is important since the economic news of late has been mixed. Some are blaming the worst winter in decades on this mixed picture, but on average, the economic data continues on an uptrend. Despite the disappointing March jobs report, the employment picture continues to look good. One bad report does not derail a tremendous surge in job growth over the past 5 years. With the unemployment rate now at 5.5% and the claims for unemployment insurance at a 9 week low, the labor market is still improving.

The beginning of a new quarter signals the start of earnings season, and that may be the reason that investors might be a bit apprehensive. Corporate earnings projections have been scaled back this year because of the stronger dollar. A stronger US currency means that US goods are more expensive for foreigners, thus putting downward pressure on the earnings of US exporters. However, most economists have already factored in a rising US dollar into their forecasts for 2015 earnings, and that may not be the case. Already in the past 3 weeks, the Euro has increased in value by 5% vs. the US dollar. We don't know whether this is a temporary phenomenon or the end of the dollar's rise, but this could lead to positive earnings surprises.

One reason that the Euro has begun to rise might be that the European economy seems to have bottomed and is now in recovery mode. We still hear about the problems in Greece and how Germany is going to get tough with them. But it seems that over time, the "crisis" seems to fade and the details somehow get worked out. A growing Europe is beneficial for everyone and may give a boost to those US exporters.

We also hear about China and how fragile their economy might be. But the Chinese stock market is up over 50% in the past year which indicates to me that things over there can't be that bad.

And lastly, I don't know about you, but after this winter, just the sight of clear streets and grass is enough to put me in an upbeat state of mind. If enough people feel as I do, this could lead to renewed optimism in the markets.

2014 IRA Contributions - There is still time to make a 2014 IRA contribution if you haven't yet done so. Please give me a call if you're interested. *Jeff Feldman*

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