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
17,373	2,078	5,044	1,207	2.17%	6.02%	$1,093	$44.31

Investment Strategy Report

Negative Sentiment Rises As Investors Begin To Get Frustrated

The stock market is beginning to wear away at investors. Here we are in the middle of August and thus far for 2015, those who have risked their assets in stocks and bonds have very little to show for it. Year to date, the S&P 500 is up about 1% while the Dow Jones is down 2.5%. Only the tech heavy Nasdaq has made significant progress in stocks with a gain of 6.5%. For bonds, the Vanguard Total Bond Market Index fund is up 0.6%, so there's nothing to write home about there. The growing frustration seems to be with good reason, since investors have come to expect significantly higher returns than what we are seeing this year.

This investor frustration has caused their fear to rise. Brett Eversole of StansberryResearch.com wrote about this in his July 20th Daily Wealth column. He explained that his team has developed a "complacency" indicator. It measures, on a scale of 1 to 100, how complacent investors are. "A reading of less than 30 says that investors are overly complacent and we can expect to see a market correction of 10% or more within the coming months". However, "a reading higher than 60 shows extreme fear in the markets ... and US stocks average 10% returns 6 months after this reading and 14% over the next year". At the time of his column, the index was at about 65 and the S&P 500 was 2.5% higher than where it is now. Following the market's poor performance over the past 3 weeks, the fear reading is most likely higher than 65 now. This analysis shows again that bull markets relish investor nervousness, enabling stocks to climb the "wall of worry".

There are 2 more reasons why it is too early to be disappointed with this year's investment results. The first is that you need to consider that the stock market has been up strongly for 6 years in a row and the S&P 500 has more than tripled from its March 9, 2009 low of 666. If stocks and bonds just went sideways this year, with no appreciation, that can be viewed as a victory since holding on to such large gains is a definite positive. Stocks need to catch their breath and consolidate from time to time.

The second reason that we should be satisfied with this year's mediocre results is that the market has held steady in the face of some strong headwinds. The threat of a Greek default has been hanging over our heads all year and is still a concern despite last month's deal. Greece will soon be faced with another debt payment due on Aug. 20th and more discussions will be needed for Greece to get passed that without incident.

We have also witnessed a stock market crash in China, with their stock market having fallen almost 40% in the last 2 months. The pricking of a stock market bubble is always something to be feared. And a third obstacle we have faced is a collapse in commodity prices. We are all intimately aware of the plunge in oil prices that has extended into this year. In addition, we have seen the prices of copper and precious metals fall substantially. Commodity price declines of this magnitude usually signal a slowing global economy.

Yet our stock market has held up reasonably well in the face of all of that. Maybe the markets are sensing that an economic recovery in Europe might be taking hold and will have a spillover effect into our economy. Maybe the plunge in the China stock market is just a normal 50% retrenchment of the gains it experienced in the last year and a half. The markets might also be factoring in that the housing recovery is continuing, with the Home Builder index (ITB) up about 8% this year. Finally, the jobs picture, which I have continually mentioned as a key to our economy, continues to look good, with this past Friday's July payroll report showing another solid 215,000 job gain during July. With the stock market having traded in a very tight range thus far this year, it is inevitable that it will break out of this pattern fairly soon. My bet is that it is to the upside. *Jeff Feldman*

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