Rochester Financial Services

Fee-Only® Financial Management Services

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Fri. August 5, 2016
1:30 pm

Dow Jones	S&P 500	NASDAQ	Russell 2000	10 yr Treas	Earnings Yield (S&P)	Gold	Crude Oil
18,510	2,181	5,227	1,232	1.55%	5.74%	$1,347	$41.29

Investment Strategy Report

Solid Jobs Reports Send Market Indexes to Record Highs

Since my last letter to you, we have seen the release of both the June and July employment reports, and in both cases, we have seen significant surprises to the upside. On July 8th, we saw that the US economy added a whopping 287,000 jobs during June and just today, we saw that 255,000 jobs were added in July. The July 8th report came after a miserable previous report that showed that only 11,000 jobs were added in May. The markets obviously liked the good news, reassuring investors that the May report was probably an anomaly and that the economy was still on track. In the 2 weeks following the report, the S&P 500 surged 3.7%, breaking through the old high of 2,135 and hitting 2,175 on July 22nd, its first record high since May 2015.

Today's jobs report was 75,000 more than the expected number of 180,000. It came after 2 weeks of market stagnation, with the S&P temporarily dipping down below 2,150. It also comes after a flurry of negative market commentary from some of the top analysts on Wall Street. Jeff Gundlach of DoubleLine Capital, my bond market "guru" said last Friday (July 29th) to "Sell Everything. Nothing looks good". "The stock markets should be down massively but investors seem to have been hypnotized that nothing can go wrong". I will also add that Gundlach does not foresee a recession anytime soon, so that has to be viewed as a positive to counterbalance his bearish views.

Jim Grant, editor of Grant's Interest Rate Observer had a similarly negative view. In a recent Barron's interview, when asked about what stocks he likes, he said, "When I look back to 2007, I really wish we hadn't reached for long ideas (stocks to buy) simply because we felt we had to have them. I'm not going to try to find what can't be found".

So despite the fact that stocks are at record highs, pessimism still seems to be running high. Or maybe it is the record highs that are causing the pessimism. After all, we have been taught to "buy low and sell high". With stocks at record highs, is now the time to take profits?

No, says Steve Sjuggerud, of Stansberry Research. While I might have a group of gurus whose opinions I value, Steve is my numero uno, go-to guy. The title of his latest newsletter (Aug. 4th) is "The 'Melt Up' in US Stocks is Finally Here". Pretty contrarian, I would say, but that's the basis of his philosophy of successful investing. Don't follow the crowd and rely on your convictions, even when people think you're crazy. He contends that "Stocks often have their biggest, most explosive gains at the ends of major bull markets". He compares our current bull to that of the 1990s. From the fall of 1998 to March of 2000, the Nasdaq market gained 200%, which was the melt up finale of probably the greatest bull market in history.

He goes on to say that "the Melt up gains typically begin after a time of extreme fear". Back in the fall of 1998, it was the Asian Crisis that had caused stocks to plunge and fear to spike higher. In the past 12 months, we had the collapse last August and again in January and February of this year. Both times we saw the fear index (as measured by the "VIX") surge. It is only natural now, he feels, to have the market move significantly higher from here.

Another positive development that we have seen in the last month is that growth stocks have taken charge. Since the Brexit low of June 27th, the Nasdaq is up 13.7% vs. 8.9% for the S&P 500. As mentioned previously, it was the Nasdaq that saw the explosive gains in 1999 and 2000.

Having said all of this, please don't get the impression that now is the time to throw caution to the wind and turbocharge our portfolios (although that is basically what Sjuggerud is saying). After experiencing substantial gains during the past 7 ½ years, doing that could be considered being greedy. However, it also is not the time to hunker down and *sell everything* as Gundlach recommends, *for those of you who have a long term time horizon.* While I do feel (as does Sjuggerud) that a day of reckoning might not be too far off, being too early in this business is often the same as being wrong. Trying to time the stock market can prove to be a very frustrating endeavor. *Jeff Feldman*

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