

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)	Crude Oil	Gold
10,674	1,126	2,295	662	2.96%	7.10	\$1,182	\$81.45



Investment Strategy Report

Stocks Continue Higher, Recovering 50% of Losses From the Correction

The stock market recovery that I talked about in last month's letter continued for the rest of July and looks to be continuing now into August. After hitting a high of 1,217 on April 23rd, the S&P 500 proceeded to fall 16% or almost 200 points to bottom at 1,023 on July 2nd. Since then, it has recovered over 100 points to its current level of 1,126, erasing over half of its prior 2 months of losses. So the question I posed last month of whether this largest of corrections since March '09 was just another correction or the resumption of the bear market, seems to have been answered. The stock market appears to want to ignore the negative sentiment out there and resume its uptrend. In analyzing the recovery in stock prices, market technicians first stated that the S&P 500 had to get over the resistance level of 1,080. Then 1,100 was a key price level for the index to get over. Finally, 1,115, the S&P 500's 200 day moving average was going to prove to be stiff resistance. Now that these levels have been surpassed, the market's health, if nothing else, is better.

We all of course know that just when it seems like the stock market's waters have calmed down a bit, that's when we need to be wary (I guess you can say we *always* need to be wary). But the market appears to be sensing something that is propelling it higher. "Bad" news released yesterday from China that its economy was slowing down more than expected was turned into good news that China won't have to follow a tight money policy and might be engineering a soft economic landing. In today's world, as goes China, so goes the rest of the world. Foreign stocks opened higher this morning and the US markets followed suit. I am also hearing "rumors of rumors" that the tax cuts that were due to expire at the end of this year might not occur after all. I mentioned in last month's letter that John Mauldin was fearful that the expiration of the tax cuts, along with a weak economy, would be enough to throw us into a double dip recession. Possibly, the market is sensing those rumors.

Louis Navellier (7/30) talked about an "epic battle" between earnings and economic news. Second quarter earnings reports are still being released and thus far, about 75% of the companies have reported better than expected earnings. All we need now is good economic news about employment, consumer spending, etc. to insure a lasting recovery. As Dan Fuss, manager of the Loomis Sayles Bond fund (see WSJ article below) said last Friday on CNBC, companies are doing well, they have good balance sheets and strong income statements. I hear a lot these days about blue chip stocks selling at good values. Barton Biggs of Traxis Partners said that high quality US stocks are the most attractive bargain around today. "Renowned" investor Jeremy Grantham of GMO predicts "9.1% per year average annual real returns from high quality US stocks and 10.3% a year from emerging markets". Speaking of emerging markets, I began adding positions for some of my clients last week. Just as I did some defensive selling when the markets violated support levels on the downside, I reinvested that cash when the markets sprung back to life. My plan is to continue adding exposure to emerging markets as they continue to perform well.

Flipping the coin to see what the Debbie-Downers (stock market bears) are saying, technician *extraordinaire* Jeff Clark of Stansberry Research came out with a sell signal last week, saying that according to his charts, the recovery is over and the bear market is again ready to take hold. Since he does have such a good track record, we do need to take at least some heed of his warning. And John Mauldin (2000wave.com, 7/30) is still cautious. His first point is that foreclosures will probably top 1 million this year. He adds that if we were to head towards a recession, there isn't much that the government can do. "Our deficits are already at dangerous levels and a recession would mean that tax collections would fall further".

WSJ Quote - In this past weekend's edition of the Wall St. Journal, I was quoted in an article about bond funds. It talked about bond fund strategies in today's interest rate environment, which is appropriate considering how much I have talked about it during the past year. If you didn't receive an email from me containing the link to the article, it's probably because I don't have your email address. You can email me your address at jmfeld@aol.com so that I have it for my files. In the mean time, you can find the article by going to WSJ.com and searching for the reporter "Jane Kim" and "PIMCO". The article is titled "PIMCO: Too Big to Do Battle". *Jeff Feldman*

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