Rochester Financial Services

Fee-Only® Financial Management Services

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

December 3, 2013

Dow Jones	S&P 500	NASDAQ	Russell 2000	10 yr Treas	Earnings Yield (S&P)	Gold	Crude Oil
15,915	1,795	4,037	1,124	2.79%	6.35%	$1,223	$96.80

Investment Strategy Report

Outlook for New Year: S&P 2014 in 2014?

It's that time of year again when prognosticators put forth their forecasts for next year. I borrowed the above catch phrase from Dr. Ed Yardeni, President of Yardeni Research, who, on Nov. 14th, predicted that the S&P 500 would hit 2014 next year. Dr. Yardeni is another one of those economists / stock market gurus whose views I value. He has accurately been on the right side of this bull market for many years. If the S&P 500 hits 2014 next year, that will represent a gain of 12.2% for the index from today's closing price of 1795. Throw in a 2% dividend and you come away with a solid 14% return for stocks next year. Coming after a very solid 2013, I think that anyone would be happy with that. Bob Doll, Chief Equity Strategist at Nuveen Asset Management, stated on CNBC yesterday that he looks for three warning signs of a market ripe for a fall: over-valuation, over-ownership, and over-leverage. And currently, he doesn't see any evidence that any of these factors are at play. He is in favor of maintaining current allocations.

I was fortunate this afternoon to listen to a webinar entitled "Investing in 2014", presented by JP Morgan Asset Management and led by Dr. David Kelly, their chief global strategist. The panel had generally upbeat views of investing for next year. To begin with, the consensus was that the US economy is in good shape, with forecasts for a solid 3% growth rate for 2014. We are experiencing a strong housing recovery and auto sales are solid. Corporate profits are reaching all time highs. Companies have cut costs and are improving their margins. The energy revolution here will lead eventually to US energy independence. Discoveries of vast quantities of oil and natural gas will drive increases in manufacturing in areas such as chemicals and textiles. Lower costs for heating and for transportation will help to drive consumer demand.

They also pointed out that global growth is also in an uptrend, both in the developed countries of Europe and in the emerging markets. Europe has stabilized and has much room for growth. If their current unemployment rate of 12.1% can begin to edge down, this would provide plenty of stimulus for their economies. Increased global growth would in turn increase demand for US products and help to stimulate our economy, another reason to be bullish for US stocks. They added that emerging market valuations are now among the cheapest in the world and when you combine that with their faster growth rates, the investment opportunities in these economies could be the story of 2014.

The last issue of the panel discussion that I will address is their outlook for fixed income. After the sharp rise in interest rates in 2013, and the resulting rough year for fixed income investments, investors are concerned about how to play this market in 2014. The experts don't believe that the non-traditional areas of fixed income, like the high yield market, are overpriced. Corporate balance sheets continue to be strong and default rates remain very low. They feel that the fear of rising rates is overblown. If interest rates rise only a modest 50 basis points or so, as they expect, bond investors should still be able to generate positive returns.

So how can I and the panel experts be so positive as stock prices reach record highs? Well as I have been saying all year, higher prices are not a bad thing for stocks. My go-to-guy, Steve Sjuggerud (StansberryResearch.com) has been saying for years now that stocks can go higher than anyone thought was possible. Even though the Fed will certainly begin to taper next year, they will continue to provide stimulus by keeping short term rates low. And they will continue with this accommodative policy until they are sure that the recovery is on solid footing.

Year End - We once again enter the home stretch for the year, in the midst of the holiday season. Having a profitable year for our investments always helps to lift the mood and make this time of the year that much more enjoyable. However, I do want to make sure that I wish you all a very healthy New Year, for after all, what is more important than having our health. I also want to make sure that I express to you that I am always here to help with all your financial decisions, so please make sure that you never hesitate to call me. And lastly and most importantly, thanks to all of you for placing your trust in me. It is much appreciated. *Jeff Feldman*

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

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

Fee Only ™