Rochester Financial Services

Fee-Only® Financial Management Services

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

December 8, 2016

Dow Jones	S&P 500	NASDAQ	Russell 2000	10 yr Treas	Earnings Yield (S&P)	Gold	Crude Oil
19,615	2,246	5,417	1,386	2.39%	5.57%	$1,170	$51.01

Investment Strategy Report

Post Election Surge Continues – Time For a Pause

The "dramatic" post election reversal in stock prices that began the day after the election, has now continued for one month. Investors have voted, and thus far, they are feeling good about the Trump presidency. The Dow, which closed on election day at 18,333 and fell in after hours trading to approximately 17,500, closed today more than 2,000 points higher than that scary bottom. As I have described to several of my clients I have talked to, investor behavior can at times appear to be like stampeding cattle. They can run to one extreme at one moment and then suddenly turn and run to the exact opposite extreme the next.

Investors feel that Trump will be good for business and the economy. So right now they are stampeding to the upside. But as we all know, such euphoria can last just so long. Steve Sjuggerud quotes Jason Goepfert of Sentimentrader.com, saying that "Nearly 45% of our core indicators are showing extreme optimism while 0% are showing pessimism". When investors are this optimistic about the market, it usually indicates that "everyone is already in", meaning that there is no one left to enter the market to push prices higher. That usually signals at least a short term market top.

So there is a good possibility that stocks will have some difficulty forging higher in the next few weeks. By the same token, bonds, which have gotten whacked the last few weeks, are very much unloved by investors, with negative sentiment towards them at extreme levels. Bonds should therefore show a bit more resilience the next few weeks, trying to recoup some of their recent losses. With interest rates spiking higher from 1.70% for a 10 year Treasury on election night to its current level of 2.39%, investors are also now getting paid more to invest in bonds. While all of our bond funds lost some ground in November, they at least performed significantly better than the benchmark indexes. The Vanguard Bond Market index fund lost 2.4% in November while our largest bond funds lost 1.5%, 0.4%, and 0.1%.

Predicting market behavior in the short term is always difficult, but using sentiment indicators when they hit extreme levels can at least offer some cautionary advice. However, fundamental market forces usually win out over the longer term. And investors seem to feel that the Trump presidency will usher in some sort of business nirvana that will cause economic growth to accelerate and corporate profits to surge higher. The feeling is that stocks will continue higher as will interest rates, which will cause bonds to falter. Of course, increasing one's allocation to stocks and reducing exposure to bonds will increase risk exposure and can be a prescription for trouble. It has now been almost 8 years of this incredible bull market and getting more aggressive now might not be the best timing.

It seems like the annual ritual of making stock market forecasts has become somewhat obsolete. First of all, it's hard enough to predict what will happen over next few weeks or months. Who knows what will happen over the next year. And second, just about every forecaster predicts that stocks will rise 10% over the next year, the historical average. It's a safe bet but of no real value. But I will make a stab at it, knowing that there is high probability that I will be wrong. I will refer to one of the analysts I subscribe to, Charles Nenner, as my guide. He uses wave theory for his forecasts, which seems hokey but he does have a decent track record. He predicts that stocks will top out in the fall of 2017 and will then suffer a substantial decline. It is hard for me to place too much faith in his projection, but I also don't want to ignore a warning from someone who is a trusted analyst in this business.

So for now, despite a little frothiness in this market, the trend remains up. There is no sign of a recession on the horizon, so I plan to keep our allocations in place. But my intention is to keep up our defenses and to be on the lookout for some weakness ahead.

Thank You – To all of you for another year of placing your trust in me. It is much appreciated.

Have a Happy Holiday Season and a Very Healthy New Year *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 ™