

# 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    |
|-----------|---------|--------|--------------|-------------|----------------------|-----------|---------|
| 17,372    | 2,003   | 4,593  | 1,161        | 1.96%       | 6.54%                | \$1,219   | \$48.17 |



## Investment Strategy Report

### Stocks Get Off to a Rough Start in 2015

You would think that we would be used to this by now. Stocks fall 3-4%, everyone gets nervous and thinks that this time the drop is for real, they start selling, and then boom!, the market recovers and everyone kicks themselves for not taking advantage of another buying opportunity. Is this what we're seeing again as we enter into a new trading year?

It's too soon to tell at this point, but it is disconcerting to see that the stock market is off to it's worst start of the year in stock market history!, or at least that's what they were saying on CNBC today at around 1:30 pm. The market did try to recover after that but couldn't hold on, sliding lower into the close.

So why are things looking so dire today after hitting an all time record high just one week ago? One of the reasons is that higher prices in general make people nervous. "Why does the stock market continue to go higher?" or "After such large gains, we're due for a correction". These are general concerns that are always present in a bull market as stocks climb the "wall of worry". However, each time that stocks take a breather, there are always concerns specific to that occurrence that cause investors to think that it is different this time.

Probably the biggest fear among investors now is Greece (again), and that problems there will spread throughout Europe. Although European Central Bank President Mario Draghi will be announcing his stimulus plan later this month, many think that it won't be enough. The euro continues to drop precipitously against the dollar and bond yields continue to plummet: the German bund 10 year yield now stands at 0.45%! Fears that Greece might have to exit the EU have caused a great deal of uncertainty and therefore a flight to safety.

But is it really worse now than it has been during the last few years? Will matters get resolved in Greece, which will once again lead to a global stock market recovery? My best guess is yes. We have seen this before and cooler heads have prevailed. However, investors both here and abroad are showing some panic over the dramatic fall of interest rates and oil prices worldwide. The 10 year US Treasury yield now stands at 1.96%. The price of a barrel of oil is now at \$48.17. While both occurrences are a benefit to consumers, the speed of the declines has analysts asking what is going on. This lack of an explanation has people nervous. Are these declines forecasting some unpleasant unforeseen event?

The reality of the situation is that lower oil prices will amount to a gift to consumers, as will lower interest rates. These positives along with a strong employment picture and surprisingly robust economic growth will put a floor under this current stock market correction.

Many of you have noticed that I have made a number of changes to our portfolios during the last few months. The major change has been to realign our bond portfolios. My approach over the last few years has been a barbell approach, balancing traditional bond funds with non-traditional bond funds to produce a portfolio that can do well regardless of whether interest rates rise or fall. However, after years of outperformance, the non-traditional funds have begun to underperform. I have therefore begun to reduce exposure to these funds and added exposure to traditional funds. As long as this trend continues, I will continue to move accordingly.

I have also reduced our exposure to emerging market funds for many of you. While I still feel that these funds represent an excellent long term opportunity, they still are having trouble moving in the right direction as a stronger dollar has adversely affected them. It appears that for now, the US markets are still the best game in town.

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