

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)	Differ- ential	Crude Oil
10,271	1,097	2,191	611	3.70%	6.79	-309	\$76.86



Investment Strategy Report

Market Undergoes Another Correction – Or Is It More Than That?

The stock market got off the new year with a solid start, rising 2.7% in the first week. By Jan. 19th, the S&P 500 had extended its gains to 3.1%, hitting a 15 month high of 1,150. That marked a top, at least for now, as the S&P proceeded to drop a steep 6.6% for the remainder of the month. February has brought at least a brief respite to the selling, with the markets rebounding about 2% for the first three days. But I am still hearing a lot of negativity out there, with comments like “we have now gone almost a year without a 10% correction”, especially since the market has gained so much ground in the past 11 months. The bears feel that this is the beginning of the “crack in the foundation”.

For the first time in a while, Jeff Clark (“the analyst who cried wolf”, stansberryresearch.com) got it right. His technical analysis on January 14th described a “rising wedge” pattern that he predicted might have the S&P hit 1150 but would lead to a breakdown from there. That call was right on the mark. His latest column (2/2) is titled “Stocks Have Farther to Fall” and describes why stocks will have to give back the last few days of gains before moving higher. Steve Sjuggerud (also stansberryresearch.com) wrote his monthly newsletter (1/22) with the title “Time to Bet Against Stocks”. Steve has gotten it right more often than not and has made some prescient calls, so I do pay attention to his advice. His thinking is that market sentiment today is at an exact opposite to where it was last March. Back then, everyone was scared and sentiment was very negative. As a contrarian, he did the opposite and bought stocks. Now, when everyone is back on the stock market bandwagon, he is again taking the contrarian approach and betting against the market.

I would consider both of these recommendations as short term market trades. For various reasons, the analysts feel that the market needs a bigger pause than a just 5% correction. Stock market bulls, on the hand, feel that 1) making short term market timing moves are difficult, as the short term corrections back in June and October of last year proved, and 2) the improvement in the economy will longer term push the market higher. This is the position that I am taking now and have been taking for quite a while. The conclusion I came to in last month’s letter, that the improving economy will trump some of the more fundamental economic problems, I think is still true. In Bob Brinker’s latest newsletter (2/1, bobbrinker.com), he lists many of the economic reports that should help to boost the market. Leading economic indicators have now risen for 9 consecutive months. Industrial production is increasing as is personal income. While unemployment remains high, the rate of job loss has slowed substantially. He expects continuing expansion of exports in 2010 and more signs of stability in the housing market.

As I mentioned last month, I am still taking advantage of the favorable performance of our bond funds to provide a defense for our portfolios. During last month’s market decline, our portfolios were on average, less than half as volatile as the S&P 500. The improvement in the corporate fixed income market should continue to help bond performance in 2010. While I do think that 2010 will be a good year for stocks, I do think that the moonshot of 2009 is over and that making money in 2010 will be more of a challenge.

Roth Conversions – You will be hearing a lot this year about converting traditional IRA money to Roth IRAs. The reason is that for the first time, beginning this year, anyone can do the conversion. Previously, only those whose annual income was less than \$100,000 were eligible. And the “bonus” for 2010 is that the additional taxable income that this move creates can be deferred until 2011 and 2012 (50% in each year). The hype is that once you do the conversion, the money will grow tax free forever. While this may sound appealing, *it is not in the best interests for most of you!* You will wind up paying more tax than if you were to wait until retirement to take it out (plus, tax rates are slated to go higher in 2011). Please call me if you are thinking of making the move.

1099’s – Schwab’s year end tax statements should be mailed out by the middle of this month. They are delaying them until then so that hopefully they can avoid having to do corrected statements. *Jeff Feldman*

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