

Rochester Financial Services

Fee-Only® Financial Management Services

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Principal

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|--------|-------|--------|---------|-------|-------------|---------|---------|--|
| Dow | S&P | | Russell | 10 yr | Earnings | | Crude | |
| Jones | 500 | NASDAQ | 2000 | Treas | Yield (S&P) | Gold | Oil | |
| 11,697 | 1,274 | 2,710 | 791 | 3.40% | 6.67 | \$1,372 | \$88.12 | |



Investment Strategy Report

Will Good Jobs Data Keep Stocks Rolling?

2010 finished up with a very impressive December rally that took the major averages to highs not seen since the collapse of Lehman in September 2008. The Santa Claus rally lasted for the whole month, with stock indexes up about 6% on average. And 2011 has continued the trend, with stocks rising another 1-2% in the first four trading days of the month.

As stocks have continued to climb higher, investors have become more confident. These high levels of optimism can be a sign of trouble. One of the stock market indicators that I track is investor sentiment, and the service I use is Sentimentrader.com. During the past few weeks, investor confidence has reached extreme levels not seen since the market peak back last April. What followed then was a 15% stock market correction. Dan Ferris (Stansberryresearch.com) recently wrote the following: "Mark Hulbert tracks the bullish and bearish sentiment of newsletters. Right now, Hulbert says stock market sentiment among newsletter writers is "disturbingly high", meaning way too bullish, a level "on which market declines typically thrive". Hulbert added that corporate insiders are selling stock at their highest rate since early 2007, just months prior to the market's all time peak in October 2007. Ferris also points out that Ned Davis Research describes the current sentiment as "Excessive Bullishness".

I have started out the new year with a little extra cautiousness, feeling that with a large stock market run up and excessive investor confidence, that market risk has increased. Yesterday (Wednesday) morning, it seemed that my concerns were being validated as the stock market futures were pointing to a much lower opening. Was this the beginning of an anticipated correction? The "mini-correction" didn't last very long. At 8:15 am, the ADP Jobs Data release reported that 279,000 jobs were created in December, a much larger number than expected. Immediately the futures recovered and stocks enjoyed another up day. Is it possible that despite the higher level of market risk, that good economic data can sustain this rally? Tomorrow we will get a more reliable reading on the jobs picture as the governments non-farm payroll report for December comes out.

Stock market bulls are taking the opposite tack of those pointing to the bearish sentiment data. They are saying that since all the "smart money" is warning about excessive bullishness and waiting for the correction, that the smart contrarian strategy would be to bet against a correction. Bulls are also arguing that the economic recovery is beginning to pick up steam and a stronger economy ahead will be bullish for stocks. Strong demand for raw materials like copper and other commodities is an indication that global growth is picking up. The recent deal in Congress to extend the Bush tax cuts and to lower social security taxes will raise US GDP for next year significantly. If the level of job creation does begin to accelerate as the ADP report suggested, that could be the one piece of the economic puzzle that is needed to ensure that the recovery won't falter.

Bonds and Fixed Income Investing - As I have been mentioning in my previous letters, rising interest rates can put a halt to the favorable returns that bonds have provided during the past 2 years. I have continued my strategy of selling the more traditional bond funds that are being hurt by this trend and shifting this money to the less traditional bond funds that can do well in this environment. During the past 2 months, the Yieldquest fund has probably been the best performing bond fund in the country with a return of 14.2%. Some of our other non-traditional funds have also done well. I will continue with this strategy if this trend continues.

New Year's Resolution - My resolution for this year is to connect more with clients on all aspects of your finances. This will include 1) retirement planning - to make sure that you are on track for a comfortable retirement, 2) tax planning - to examine whether you are taking advantage of all the changes going on in the tax code, 3) estate planning - will everything pass smoothly to your beneficiaries when you pass on or do you need to talk to an attorney, 4) insurance planning - is long term care insurance appropriate for you (see page 30 of the January Money Magazine where I'm quoted on this topic). Do you have enough life insurance, 5) anything else you can think of such as college planning, mortgage refinancing, buying a house, investment real estate, etc. I'm looking forward to hearing from you! *Jeff Feldman*

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