

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)	Gold	Crude Oil
17,959	2,075	4,781	1,182	2.31%	6.02%	\$1,190	\$65.84



Investment Strategy Report

Will Stocks Continue Their Climb Higher Into 2015?

We are now in a solidly bullish time of the year and it appears that the stock market is taking full advantage of that. I have mentioned many times during the last 6 months that the period from Oct. 1st of this year to Sept. 30th of next, the third year of the presidential cycle, has been almost always positive for the markets. So despite the inauspicious start to October, those losses have been recovered and stocks are now hitting record highs on an ongoing basis. We also have the annual seasonally favorable time of the year, Nov. 1st to April 30th, in which stocks have a favorable bias vs. the sell in May time period (May 1st to Oct. 30th). And finally, I was recently reminded of the favorability of the years ending in "5" (years 2000 and 1990 not withstanding) in which stocks have a historical upwards bias.

So the heck with conservative, balanced investing. Let's double up on stocks, get rid of our bond and conservative stock funds, and soak up the gains as stocks zoom higher into the foreseeable future. Of course, it would not be advisable to hang our hats (or our life savings) on the above maxims. While they do have a good track record, we know that the stock market has a way of confounding us just when we think that we have it figured out. It also has a way of focusing on fundamentals, like earnings and economic growth. On this latter point, it may just turn out to be that the fundamentals themselves might be enough to propel stocks higher in 2015, without having to rely on past historical occurrences.

This past Friday (12/5), the November non-farm payroll report was released and it stated that 321,000 new jobs were created in November. Analyst estimates had been for 230,000 new jobs. This was a blowout number that no one expected and it showed yet again that our economy might be doing much better than most analysts had thought. These jobs numbers along with the weekly claims for unemployment insurance, which have now solidly dipped below the 300,000 level, are now pointing to a much stronger job market.

Another data point that should be looked at as a positive for our economy has been the dramatic drop in the price of crude oil. It now stands at \$66 per barrel. Back only 5 months ago in early July, that same barrel cost \$104. The US is now producing so much energy that supply has seen a sharp increase, which translates into a substantial price drop. This collapse in energy prices has provided a stimulus for the consumer, with gasoline now dropping below \$3 per gallon for most of the country and heating oil and natural gas prices also dropping. It's as if we all got a massive tax cut to stimulate the economy.

Despite our growing economy and rising stock prices, interest rates have continued to remain low. And they should continue to stay low as inflation is nowhere to be seen. This is partly due to much lower rates of growth around the world. Europe appears to be experiencing deflationary pressures, as can be seen by the extraordinarily low interest rates in Germany (0.8% for their 10 year) and in France (1.4% for their 10 year). These low rates will serve to keep a lid on our rates, as foreign buying of our securities will keep rates low.

With our economic growth picking up, energy prices dropping, and interest rates staying low, there should be no reason why US equity prices can't continue higher next year. Stocks currently are overbought and might need a week or two pause or pullback before moving higher. So yes, we still need to keep our defenses up, but there doesn't appear to be anything on the horizon yet that will derail the bull market.

Required IRA Distributions - I have contacted all my clients who are required to make an annual distribution from their retirement accounts before the end of the year. If you haven't taken care of it yet and don't during the next few days, I will be contacting you shortly to help you with this.

Holiday Time - Hopefully you will all be able to spend time during the next few weeks with friends and family. Please enjoy yourselves and have a Happy and Healthy Holiday Season! *Jeff Feldman*

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