Rochester Financial Services

Fee-Only® Financial Management Services

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

January 3, 2016

Dow Jones	S&P 500	NASDAQ	Russell 2000	10 yr Treas	Earnings Yield (S&P)	Gold	Crude Oil
17,425	2,044	5,007	1,136	2.27%	5.86%	$1,061	$37.04

Investment Strategy Report

After a Down 2015, Markets Give No Hint of Direction for 2016

This time of year is always the most difficult one for investors, as they try to put together a game plan for the new year. This time it is especially challenging, as last year's directionless market is giving no hint as to where stocks are headed. It seemed like every rally last year was an opportunity to sell and every sell-off was an opportunity to buy, as the markets stayed within a range for most of the year, with the Dow finishing down 2.2%. We will have to see whether this pattern continues or whether the markets will stage a breakout, either higher or lower. For those of you who are disappointed with this past year's lackluster results, my best answer is that after 6 years of substantial gains (2009 to 2014), the market was due for a pause, hopefully the pause that refreshes.

The major problem for stocks in 2015 was a disappointment in corporate earnings. Professor Jeremy Siegel of the Wharton School stated in a November 30th interview that "At this time last year, the estimates for S&P 500 operating earnings were between $120 and $125. Now those earnings are coming in at approximately $106 to $107." He attributed this unprecedented decline to a collapse in oil prices and the strength of the dollar (which hurts US exporting companies). However, he is more optimistic for 2016. He stated that outside of the energy sector, earnings grew by 7 to 8% last year. If the price of oil can level off at the $40 to $50 range and the dollar stabilize to $1.05 to $1.10 to the euro, we can very easily get a snap back in earnings. "Reaching 2,300 in the S&P 500 is definitely a possibility by the end of 2016".

The big news in December was that the Federal Reserve finally raised the Federal funds rate, its first raise in nine years. How will this affect our investments? Well, the historical data shows that stocks generally rise during the 12 months following the Fed's initial rate hike. Stansberry Research's Steve Sjuggerud shows that during the last 4 Fed rate-hiking cycles (1986, 1994, 1997, and 2004), stocks were on average 14% higher one year later. Of course, 4 data points is a small sample size. But his point is that selling just because of a Fed rate hike is not a good strategy.

And will the Fed rate hike affect our bond funds? My answer: probably not much. First of all, I am not convinced that rates will rise this year and even if they do rise modestly, the increase in yield can more than compensate for any decline in face value. Keep in mind that the Fed only controls short term rates. Longer term rates are more affected by the rate of growth of our economy, and while the economy continues to grow, it is doing so at a very moderate rate. If anything, rising short term rates can serve to slow economic growth and keep a lid on any rise in the rates of longer maturity bonds. Which is why I don't expect more than 1 or 2 more rate increases from the Fed this year, which can result in bonds performing OK in 2016.

Jason Goepfert of Sentimentrader.com gives a pessimistic view of the market in his end of the year column. His bottom line view of the current situation is "As we head into 2016, stocks are struggling, sentiment is souring and many macro-type indicators are pointing down. From a medium-term point of view, that is not a recipe for heavy stock exposure".

Much of his analysis stems from the stock market's inability to stage any sort of a rally in December. Even after the rebound from the post-Fed sell off, stocks could not hold on to their gains and limped lower to the end of the year finish line. Which is one of the reasons why I am cautious now, basically in a holding pattern, waiting to see how the indexes start off the new year. However, I do have some reason to be slightly optimistic. During the last 2 weeks of the year, we started to see some outperformance from some of last year's laggards. Non-traditional bonds and emerging market stocks fared better than traditional bonds and US stocks. If this trend continues into the new year, it might be an indication of a broadening out of investor appeal and a positive for the rest of the market. *Jeff Feldman*

Tel: 585 / 442-7580
Fax: 585 / 351-2458
Email: jmfeld@aol.com

7 Hastings Circle, Pittsford, NY 14534
http://www.rochesterfinancial.com

Registered Investment Advisor with the United States Securities and Exchange Commission