

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
12,657	1,344	2,860	853	3.02%	6.96	\$96.20	\$1,544



Investment Strategy Report

Weak Jobs Report Halts Stock Rally

It was only two weeks ago, on Friday June 24th, that stock market fans were not feeling too well. The stock market had been grinding lower for 7 out of the previous 8 weeks. The major averages had shed about 7% from their April 29th highs. Adherents to the old adage, "sell in May and go away" were feeling pretty proud of themselves, having avoided another Spring of losses. The news out of Europe was looking glum, as rioters in Greece were protesting calls for austerity plans, plans that were necessary to provide loan relief from the European Union and the International Monetary Fund. The threat of a default in Europe and the resulting contagion were bringing back nightmares of 2008 and the potential for economic collapse. And then, the Greece parliament approved the austerity plans, and the European problems had seemingly been kicked down the road for a while more. For now, investors didn't have to worry about Europe's pathetic debt problems. We could now get back to focusing on the recovering global economy, which seemed to be doing OK despite the temporary setback caused by the tragedy in Japan.

Beginning on June 27th, the S&P 500 advanced for 7 of 8 sessions and gained 6.7%, erasing nearly all of its losses. The market quickly turned from a state of fear to one of optimism, which is how things stood until yesterday (Friday) morning when the June jobs report was released. Instead of an estimated 120,000 new jobs being created, the number came in at only 18,000 and the unemployment rate ticked up a tenth to 9.2%. This was a big disappointment and put an end to the stock rally. While the averages all lost less than 1% on the day, the concern now is similar to what we saw last year at this time, that the recovery is a tenuous one, and it can very easily be stymied. This reinforces the need to exercise caution. The job picture is murky and the housing situation is probably just as bad, if not worse. I can also add concern about the ongoing discussions in Congress about raising the debt ceiling. You have to believe that this will get resolved before the Aug. 2nd deadline, but the uncertainty about how this will get resolved will continue to be a factor.

But there are some bright spots. The corporate earnings picture is looking quite good. Companies are flush with cash and earnings are back to where they were in 2007. That makes stocks cheap. If you add the fact that interest rates are so low, then investors have an incentive to move their money out of bonds and in to stocks to boost their returns. We have also seen solid retail sales figures. Despite the miserable jobs picture, it seems like consumers are still hanging in there fairly well. The bottom line appears to be that a strong earnings environment should be able to trump other concerns about the economy. We know that improvement in the jobs picture always lags when the economy emerges from recession. Only this time, it is taking much longer than normal. I am looking for the market to continue slogging modestly ahead.

Market Sectors - 1) The emerging markets suffered along with our market, but they rebounded the same as ours. So they are doing just fine. I still like their long term prospects. 2) The same holds true for biotech and health care in general. They held their own the last few months but are significantly ahead of the market averages for the year. If they continue to outperform going forward, I will continue to add them to our portfolios. 3) The price of gold dropped to \$1,480 an ounce a few days ago, raising fears that its run was over. However, in the last few days, it has jumped back about \$60, once again near its high for the year. Shares of gold stocks have lagged the price of gold this year, but they appear to be beginning a period of outperformance. The consensus among the analysts I follow is that solid gains are in store for this sector. 4) Again this month, trying to figure out the interest rate picture is my biggest challenge. Rates fell throughout June despite the fact that the Fed's stimulus program, QE2 was ending on June 30th. As an example, the yield of the 5 year Treasury fell to 1.37% on June 24th. However, within a week, the yield had shot up 1.80%, it's biggest weekly gain in years. It looked like the long awaited rise in interest rates had begun. Yesterday's weak job report changed that, as the yield fell back to 1.57% on fears of a slowing economy. The coming weeks will indicate whether that one week surge in rates was only a counter trend rally or the beginning a longer term trend. *Jeff Feldman*

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