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
17,068	1,985	4,486	1,208	2.65%	6.30%	$1,321	$104.06

Investment Strategy Report

Stocks Hit All Time Highs as Dow Breaks 17,000. Can We Make It to October?

Happy 4th of July everyone!, and so far this year we have a lot to be celebrating. Back in December, I made my annual forecast for the stock market, suggesting that an S&P level of 2014 in 2014 seemed reasonable (as did many other market forecasters make that "cute" prediction). Well here we are barely half way through the year and the S&P 500 sits less than 1.5% away from achieving that goal. So for our second half investment strategy, does it pay for us to stay in the stock market if our gains for the rest of the year seem to be somewhat limited? Or should our yearend forecasts be adjusted upwards as our recovering economy keeps on pushing stock prices higher?

Before answering that question, I want to point out a couple of stock market "curiosities" that market historians have pointed out. 1) As Bob Brinker writes about in his July newsletter, "in every mid-term election year since 1962, there has been a correction of at least 8%". Thus far this year, the worst pull back we have seen was the drop that occurred right as the year started through Feb. 3rd. The stock market as defined by the S&P 500 fell 5.7%. Looking at the Dow, the fall extended to a loss of 7.3%. Was that *the* correction of 2014?

2) The mid-term election year also has a positive distinction as being the start of a one year period (out of the 4 election cycle years) that far and away gives investors the best annual stock market performance. Steve Sjuggerud cites legendary investor Jeremy Grantham whose research has determined that if you look at the one year period starting on Oct. 1st of the mid term election year to Sept. 30th of the third year of the election cycle, just about all of the stock market gains occur during that period (while the other 3 years of the 4 year election cycle are flat). Going back to 1932, there has *never* been a losing year during this election cycle time period.

So hence, that statement in my title, "Can We Make it to October?" This October 1st begins the favorable time period for stocks. But we haven't had the 8% correction yet. Should we sell now and reinvest in October? Or should we just ignore all these stock market maxims and invest the way we always do? After all, there's a maxim that says "As goes January, so goes the rest of the year". We had a terrible January but stocks are doing great since then. And there's the maxim "Sell in May and go away". If you had followed that one, you would have missed out on good gains for both May and June.

My inclination is to ignore these maxims but instead follow the time honored advice of "Don't fight the tape", (if the market is in bull mode, don't try to second guess it), and "Don't fight the Fed", (if the Fed is following an accommodative monetary policy, stay with the market).

In Steve Sjuggerud's latest newsletter, he actually tells us the date that he thinks it will be time to begin getting cautious, April 29, 2015. That is a day that the Federal Reserve meets and Steve thinks that they will be begin raising interest rates then. It is a guess of course, and even if they do raise rates then, the stock market can still continue to climb higher after that. Stocks historically have continued to do well even after the Fed begins raising rates, as they did between 2004 and 2006, when the Fed raised rates from 1% to 5% and yet the stock market rose 50%. However, his argument is that at some point, we will need to get defensive (or at least more defensive), but that time is not now.

Talking about corrections, or the lack of them, it is important to point out that while the major indices like the S&P 500 and Dow have not had that 8% correction, both the tech heavy Nasdaq and the Russell 2000 small cap index have both suffered declines of more than 9% back in March and April. These were the highfliers prior to then and they suffered the most during that correction. However, both these indices have come roaring back in the past few months along with the rest of the market. This indicates to me that if the declines in the market leaders could not take down the rest of the market with them, and they once again have become leaders of this latest rebound, than the stock market might be much healthier than what some market observers had thought. *Jeff Feldman*

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