

# 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
17,730	2,077	5,009	1,248	2.39%	6.02%	\$1,168	\$55.52



## Investment Strategy Report

### Waiting For Greece - Will Referendum Vote Jolt Stocks?

By the time you read this, the results of the July 5th vote in Greece will be known and its effect on global stock markets evident. Last Monday (June 29th), when it appeared that the European talks with Greece were breaking down, the world stock markets plummeted, with the US markets falling 2%. Later in the week, when investors began to feel more optimistic about a possible resolution, stock markets partially recovered.

The Greek drama has been ongoing for about 5 years, and it now appears that we are closer to the end than the beginning. However, don't be surprised if the Greek problem is just as unresolved Monday morning as it is now. There are no good answers for what faces Greece, and in all likelihood, the Europeans will continue to kick the Greek can down the road for a while to come.

Investors can argue about why the world's investment markets should be obsessing over a country with a GDP smaller than that of Boston. Some say that it is the contagion effect, that if Greece doesn't pay its creditors, banks will fail and the pain will spread. Others say that the risk of contagion has been lessened over the years, with lending institutions reducing their exposure to Greek debt. The one thing that everyone can agree on is that stock markets do not like uncertainty, and the Greek drama is providing plenty of that.

As an example, the June non-farm payroll report, which was released this past Thursday, indicated that 223,000 jobs were added in the US last month. This appeared to me to be a "goldilocks" number, a relatively strong number but still a little below economists' expectations, which could allow the Federal Reserve to keep interest rates low for a little longer. In other words, the best of both worlds, not too hot and not too cold. As expected, our stock market initially rallied at the open. However by the end of the day, stocks finished flat. No one wanted to be too optimistic about stocks with the weekend vote in Greece looming.

Once the uncertainty in Greece dissipates, stock prices around the world can rally. Europe in particular appears to be poised to move higher, a continuation of a move that began early in the year but has been put on hold pending developments in Greece. Valuations of European stocks are significantly cheaper than those of US companies, having missed out on the large gains that US stocks have experienced over the last few years. As their economic recovery begins to gain momentum, so should the prices of their stocks. The European Central Bank is helping in this effort. They are buying 60 billion euros of government bonds each month in an effort to stimulate these economies, just like the Federal Reserve did in the US up until recently. As a result, business activity and economic output are at multi-year highs and unemployment is at a multi-year low.

Here in the US, economic data continues to look good. The Conference Board announced a jump in consumer confidence, reflecting an improving labor market and increased consumer spending. Construction spending is also on the increase, reaching its highest level since the recession. A stronger economy along with low interest rates continue to be a stimulus for the housing recovery.

The employment picture continues to be strong. Weekly unemployment claims have been consistently below 300,000, with its recent average at about 275,000. And the monthly non-farm payroll jobs reports have been showing that the economy has been consistently adding more than 200,000 jobs per month.

While I am a little anxious to see how the stock markets react to tomorrow's Greek vote, any volatility should be only short term in nature. Longer term prospects are still looking favorable. *Jeff Feldman*

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