

# Rochester Financial Services

Fee-Only® Financial Management Services

Jeffrey Feldman Ph.D., CFP  
Certified Financial Planner

July 10, 2010

Dow Jones	S&P 500	NASDAQ	Russell 2000	10 yr Treas	Earnings Yield (S&P)	Crude Oil	Gold
10,198	1,078	2,196	629	3.06%	7.40	\$76.09	\$1,210

Principal



## Investment Strategy Report

### Stocks Bounce Back. Does This Signal All Clear For the Economy?

It has been 16 months now since the stock market bottomed in March of 2009. Since that time, we have witnessed a dramatic surge in the stock market. Interspersed throughout this uptrend we have now experienced 4 significant corrections - June/July and October of 2009, January/February of this year and now May to the beginning of this month. The market has climbed to higher highs following each of the past three corrections. Will the pattern continue? Are we off to the races again or is this time different. Will global and domestic economic problems cause the world economies and stock markets to slow down, or are these concerns overblown?

Back at the end of April, with the Dow sitting at a post recovery high of 11,200, we were basking in the glow of an economic recovery that had lifted our spirits along with the wallets of stock market investors. For the first time in 2 years, the economy was creating jobs again. Housing and the automobile industry were seeing a resurgence, and economic growth was firmly back in positive territory. There was some concern that the economic troubles of Greece and possibly Spain might undercut this recovery. But when the European Union, backed by Germany, came up with a bailout package, the thinking became, yes the problems over there are serious but they are manageable. Fast forward 2 months to early July. It appears that while their problems are still serious, Europe is holding its own. The Euro has stabilized and is now gaining in strength vs. the dollar. The European stock markets have begun to rally. However, over here, we are seeing greater concerns that growth will be slower than forecast. The all important jobs reports for the last few months have been much weaker than expected. There are now forecasts of more trouble in the housing markets. Odds for a double dip recession are rising, although most economic still feel that it will not occur. So while the question two months ago was whether the Europeans would sabotage our recovery, the question now people are beginning to ask is the reverse.

In the past week, the stock market has surged about 5%, so the negative sentiment has definitely been on the wane as investors are feeling quite a bit better. But sentiment can change quickly on Wall Street, and the question is, was this rebound just an oversold bounce, or had investors become too bearish on the economy and the true outlook should be much more sanguine. Two analysts that I always want to pay attention to are John Hussman (Hussman.net) and John Mauldin (2000wave.com). They both called the 2000-2002 and the 2008 bear markets, so you have to have some respect for them. In Mauldin's latest letter, he says that "Unemployment is high and ... going higher. Incomes are weak. Housing is likely in for a further drop in prices. Treasury yields are falling ... because of economic conditions (deflation). My main concern is that we may have a weak economy in the latter half of the year and then introduce a large tax increase, which my reading(s) ... suggest will throw us into recession". In John Hussman's 6/28 letter, he issued a very serious concern. "Put bluntly, I believe that the economy is again turning lower, and that there is a reasonable likelihood that the US stock market will ultimately violate its March 2009 lows". Now, there are, of course other analysts who feel that the lows for 2010 are in and that the economy will continue to improve and the stock market will continue heading higher. However, I do feel that I would be negligent not to pay at least some heed to Hussman and Mauldin. I have made the mistake of ignoring their warnings before and I don't want to let a rebounding stock market unduly influence me. I would hate (and I know you would too) to see the gains of the past year evaporate in another stock market sell-off. In last month's letter, I mentioned that if stocks dropped below certain support levels I would take some defensive action. That did occur and I did get somewhat more conservative for many of my clients. As always, I will await further data to determine the course of action from here.

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Tel: 585 / 442-7580  
Fax: 585 / 473-9947  
Email: [jmfeld@aol.com](mailto:jmfeld@aol.com)

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

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