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
16,722	1,924	4,234	1,126	2.59%	6.03%	$1,246	$102.89

Investment Strategy Report

Stocks Break Out to New Highs Despite Investor Concern

What if I had told you a month ago to invest in the Russian stock market? Back then, tensions between Russia and the Ukraine were at their peak and the prospect of armed conflict was a high probability. The Russian economy was (and still is) in poor health as sanctions by the West had caused a collapse of the ruble and a crumbling of the Russian economy. You would have thought that I had lost it. Russia was the last place that you would have wanted to invest your money. Yet over the past month, the ETF for the Russian stock market, RSX, is up 14%! Not a bad return for a month's work. And I almost did mention it to you because my Stansberry Research guy, Steve Sjuggerud, did recommend RSX in his newsletter. His take was that Russian stocks were the cheapest in the world based on their low Price/Earnings ratio. Prices were artificially depressed because of the Ukrainian conflict but if tensions were to ease, the low prices there could be a bargain for long term investors.

The easing of tensions in that region could very well explain why our stock market broke through resistance last month and continued on to new record highs. The S&P 500 closed above the 1,900 mark for the first time on May 23rd and has since added another 24 points in the past week and a half. And investors are still confounded by the stock market's strength. "The stock market is overdue for a correction" they say. "Sell in May and go away means that it's only a matter of time before the correction comes". This bull market continues to climb the wall of worry. No one wants to believe that stocks can continue to move higher.

Well stocks probably are due for a correction. Jeff Clark, also of Stansberry Research, wrote last Thursday "the stock market is extended and set up for a pull back" based on the technicals that he follows. But timing the corrections is very difficult and you can miss a lot of market upside waiting for them. Longer term investors would be better served looking at the fundamentals.

1) Today we heard from the automakers that US auto sales surged in May, seeing a surprising 11% increase over the same period last year. This was a clear indication that the weakness seen in the winter was weather related and not a reduction in consumer demand nor in consumer confidence. 2) Transportation companies like trucking, railroads, ocean shippers, and airlines are one of the most economically sensitive segments of our economy, gauging the need for companies to ship products to demanding consumers. The Dow Jones Transportation average has gained over 9% in the last 3 months and sits near an all-time high. 3) As I mentioned last month, the employment numbers continue to be strong, as monthly jobs added have been consistently above 200,000 and weekly unemployment claims have declined to an average of about 300,000. Our economy seems to be doing very well, thank you. Investors looking for a surprise move this summer might find it on the upside.

Interest Rates and Bond funds, - The yield on the 10 year Treasury today sits at the same level it was at when I wrote last month's letter, 2.59%. However, looking further into the past month's fluctuations, you will see that the yield dipped to a low of 2.40% and was at 2.46% as late as this past Friday. In the past 2 days, we have seen the rate spike to its current level of 2.59% in the face of favorable economic news. If this rate rise is *the rise* we have all been waiting for, then I may begin to make some rebalancing moves to our bond funds. However, I am aware that interest rates in our country are significantly higher than those seen in Germany and France and other European countries, which might serve to keep a lid on our rates.

Emerging Markets - It seems like this might be the year the emerging markets begin clawing their way back to respectability as the performance of these funds has begun to outperform stocks in the US and in Europe. I have therefore begun to add emerging market funds to our portfolios. I expect to continue this process if this trend persists. *Jeff Feldman*

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