Rochester Financial Services

Fee-Only® Financial Management Services

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Sat. June 4, 2016

Dow Jones	S&P 500	NASDAQ	Russell 2000	10 yr Treas	Earnings Yield (S&P)	Gold	Crude Oil
17,807	2,099	4,942	1,164	1.70%	5.91%	$1,247	$48.90

Investment Strategy Report

Is The Disappointing Jobs Report an Omen of Things to Come?

For a while there, stock market bulls were feeling pretty good. After stocks began the year with their worst start ever, they recovered nicely in March and managed to power higher ever since. They even managed to make progress in May, a historically weak month and the beginning month of the "sell in May and go away" maxim. It was reasoned that a strengthening economy and strong job growth, even if it caused the Federal Reserve to raise interest rates, would be enough to push stock prices higher.

All of that changed yesterday, with the release of the May jobs report. Instead of the projected 160,000 new job gains, only 38,000 jobs were added last month, the lowest amount since the fall of 2010. Instead of an economy beginning to pick up steam after a weak first quarter, analysts were scrambling to downgrade their economic growth forecasts. The stock market began to slide on the news, with the Dow Jones falling 150 points. However, by the end of the day, the Dow was down only 30 points, staging a nice recovery. At least part of the recovery was due to the bad news is good news theme, which states that with such weak economic data, the Fed could no longer plan to raise rates. But is that enough? Can bad economic data propel the stock market higher just because it is putting the Fed on hold?

No. In order for stocks to move higher, corporate earnings have to grow. And I believe that we can see earnings growth as long as we avoid hitting a recession. And right now, all signs point to no recession in the foreseeable future for a variety of reasons. We are seeing moderate wage growth and good consumer confidence. The ISM manufacturing index is still above 50, indicating that it is still expanding. There is no sign of a reliable recession indicator, a flat yield curve, in which long term bond yields approach the yields of short term bonds.

Corporate earnings, which last year faced head winds because of the strong dollar and falling oil prices, will have a strong tail wind this year, as the dollar has weakened significantly and oil prices have staged a remarkable rally. It is doubtful that rising interest rates will put a damper on the recovery since global rates remain extremely low, causing foreign funds to flow into the US. This will continue to help our stock and bond markets.

It is also possible that last month's job report, which typically is a very volatile number, was an anomaly. After all, weekly unemployment claims continue to be at historically very low levels, with no indications of increasing layoffs. And the housing market continues to be strong, a situation that would probably change with a weakening employment environment.

Turning to my stock "guru" Steve Sjuggerud of StansberryResearch.com, he pointed out in his June 2nd column that "Nobody Is In Stocks Now ... Big Upside Ahead". He cites last week's American Association of Individual Investor's (AAII) survey that found that only 17.8% of individual investors expect the market to be higher in six months. "That's the second-worst weekly reading since 1992" (second worst among 1,200 surveys!). "Everyone is fearful about the market now!". Sjuggerud continues with Warren Buffet's old adage, "Be greedy when others are fearful, and fearful when others are greedy". I don't know if now is the time to be greedy, but we shouldn't be surprised if further stock market gains lie ahead.

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