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
15,629	1,773	4,058	1,104	2.70%	6.54%	$1,257	$97.89

Investment Strategy Report

Markets Attempt to Stabilize After Getting Off To A Rough Start

If you thought that I was waiting for an up day in the stock market before writing this letter, that was not the case. But the timing couldn't have been better as we're seeing the biggest rally of the year today (Thursday). That makes me and I'm sure all of you feel a whole lot better. Ever since opening day, January 2nd, the stock markets of the world have been in a funk. And while they have tried to stabilize since then, our hopes were dashed again this past Monday as the month of February got off to an even more awful start, with the Dow falling 326 points.

While today's rally might be making us feel a little better, please don't take this as an all clear signal. First of all, the stock market volatility (as measured by an indicator called the VIX) is still about 50% higher than it was at the end of December. That means that we should expect much larger swings in stock prices vs. what we saw last year. And it has been very common this year to see large up days followed by large down days, making it much more difficult for stocks to get their footing. Secondly, tomorrow morning at 8:30 am, we will be getting the non-farm payrolls report which will show the number of jobs added during January. Last month's report was very weak, indicating that only 74,000 jobs were added during December vs. an expected number of about 180,000 to 200,000. A poor showing tomorrow could once again send stocks into a tailspin as consecutive weak reports could be more than this market can handle.

So the short term forecast for the stock market is still very much up in the air. Technicians who study stock charts and trend lines and look at the January effect (as goes January, so goes the rest of the year), are very apprehensive about the current prospects for the market. They feel that a lot of damage has been done in 2014 and advise investors to play defense until an uptrend can be established. It's hard to argue about exercising caution in this environment.

Thus far in 2014, the Dow Jones is down 5.7% and the S&P 500 is down 4.1%. The question that we are all trying to answer is whether this downturn is just a normal correction or the start of something bigger. Already I have seen analysts comparing side by side, graphs of today's stock market with the market of 1929. Other dire predictions are calling for market declines of 20 and 30%. Putting the 2014 market decline into perspective, you should all keep in mind that *we knew this was going to happen*. We know that stock prices don't climb higher in a straight line forever. 2013 was an exception, especially towards the end of the year when the market indices kept on making new highs. Pullbacks are inevitable and should be expected. They also are often welcome, giving investors the opportunity to put cash to work at cheaper prices. The problem, though, is that when they do occur, they are accompanied by the horror stories about how this is the big one, causing investors to panic.

As I have mentioned before, the only time it really pays to try to time the stock market is when indicators begin flashing a warning sign that the economy is slowing down and that a recession might be a possibility. However, nothing is currently pointing in that direction. Our economy continues to recover and projections for this year are calling for GDP growth of about 3% (2 quarters of negative GDP growth is the definition of a recession). Unemployment is down to 6.7% and the US budget deficit is projected to drop to about $500 billion this year (from over a trillion not too long ago). Much has been made of the Fed's tapering program in which they have been reducing their monthly bond purchases. However, since the budget deficit has been falling, the taper is only a natural consequence of less debt available for purchase. Besides, the Fed's zero interest rate policy will keep the stimulus in place for some time to come.

Schwab 1099 Forms - Schwab is projecting that you will receive your 1099 tax forms by Feb. 15th. While this may be later than other brokerage houses, Schwab often delays their release to make sure they have the correct numbers. *Jeff Feldman*

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