

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
16,360	1,874	4,358	1,206	2.69%	6.19%	\$1,338	\$100.98



Investment Strategy Report

Markets Power Higher Despite Ukraine, Putin

Investors began 2014 with lowered expectations because they knew that the outstanding gains realized in 2013 could not be duplicated. Their expectations were lowered still, following the dismal performance of the markets during January when all the stock indices got pummeled (as goes January so goes the rest of the year). However, as has been the case numerous times over the past few years, the stock market has shown incredible resilience. After falling 5.3% in January and then 2.1% on the first trading of February, the Dow Jones Industrial Average has recovered and has gained 6.7% for the remainder of February and the first few days of March.

These gains have come despite a lack of good news. Economic reports during February were nothing great, but these results have been explained away by this winter's bad weather. And more importantly, the market has advanced despite the turmoil in the Ukraine and Putin's movement of Russian troops into Crimea. We did have the sell-off this past Monday, but yesterday's rebound, after it seemed that Putin's rhetoric was becoming somewhat less bellicose, more than made up for the decline.

Many investors, and many of my clients included, are scratching their heads wondering what is keeping the market up. It was only a few weeks ago that market technicians were comparing this market to the one of 1929. And in the ensuing few weeks, there hasn't much in the way of good news to propel stocks higher. Yet here we stand at a record high in the S&P 500, the small cap Russell 2000 and the Nasdaq at an almost 14 year high. Another positive factor is that the leaders in this move higher are the more aggressive areas of the market, the small caps and tech heavy Nasdaq. This is not a rally led by defensive issues. It seems like the risk-on trade is alive and well.

One thing to keep in mind about the stock market, as all eyes are now centered in the Ukraine, is that the threat of conflict doesn't always cause stock market corrections. Both in March of 2003 and January of 1991, the stock market did fine as we headed into conflict in Iraq.

This past Monday, when the Dow was in the process of falling 153 points on the news from the Ukraine, Warren Buffet was being interviewed on CNBC and once again stated that geopolitical events were not affecting his decisions to buy businesses that he determined were good values. Later that evening, Jim Cramer was talking about his Bristol Myers indicator, i.e., how do the events in the Ukraine affect the sales of Bristol Myers' products. Answer: not very much. Good companies will continue to do well despite disruptive short term events.

Another reason to be optimistic about the US economy is that housing stocks, as represented by the fund ITB, just broke out to a new high. Why would the stocks of the home builders be doing so well if the economy was faltering? And how about the share price of Cummins (CMI), the company that makes diesel engines for bulldozers, heavy trucks, cranes, etc. It just hit an all time high. Strong demand for these products means that the economy must be doing fairly well.

Falling interest rates have also dispelled fears that higher borrowing rates would detour the recovery. Rates have dropped significantly since the first of the year, which is a positive for businesses and also means that our bond funds are getting off to a great start this year. While stocks have been on a roller coaster ride in 2014, bond funds have done well both in January and February, giving us steady returns that help to smooth out the volatile stock indexes.

New Addition to the Feldman Family! - On Feb.23rd, our daughter Sarah Carlton gave birth to a baby girl Ava. This is her first child and our third grandchild. Mom and baby are doing fine. *Jeff Feldman*

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