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
17,000	1,989	4,674	1,073	1.89%	6.03%	$1,254	$38.32

Investment Strategy Report

Stocks and Oil Stage a Comeback, But Is It a Bear Market Rally?

Stocks have gotten off to a bad start in 2016. January was a tough month and in February, things got worse. Using the S&P 500 as a gauge, the index began the year at a level of 2045, but by January 20th, the sell-off had gotten ugly. The index had fallen to an intra-day low of 1812, before finishing the day at 1859, a decline of 9.1% since the start of the year. The markets then attempted a recovery, with the S&P 500 ending January at 1940. But the bad news resumed in February, and the market decline took the index to an intra-day low of 1810 on February 11, ending the day at a new closing low for the year of 1829.

The S&P 500 was now down 10.6% for the year, and investors were beginning to lose any hope for 2016. The only good piece of news that day was that the market low of 1810 to 1812 seemed to hold. In fact, on the floor of the New York Stock Exchange, traders began humming the 1812 Overture, signaling that maybe that level held some significance.

That level has in fact held (at least for now), as stocks have risen in almost a straight line since then, ending today at 1989, an almost 10% gain from that intra-day low. I must give credit to one of the newsletter writers I subscribe to, Bob Brinker, who on Feb. 10th, sent out an alert saying that he thought that the market had dropped to an attractive level and therefore warranted a "buy" rating. That call did take some courage, since during that time, guest after guest on CNBC was giving their technical analysis of the market, showing with their fancy curves, how the S&P looked destined to fall another 10% to 1600.

Of course the market rebound of the last 3 weeks is no guarantee that the worst is over for the market. In fact, stocks will most likely face stiff resistance as the S&P tries to overtake the psychological barrier of 2000. In fact, the S&P closed last Friday at 1999.99, most certainly not a coincidence but more likely a sign that the trading computers are programmed to sell at certain key levels, the definition of resistance.

Jeff Gundlach of DoubleLine funds seems to be becoming the go-to investment guru of our time. When he talks, people listen. His fund performance has been stellar and his market forecasts have been right on. In his conference call yesterday (Tuesday), he didn't have much good news for investors looking for a continuation of the market uptrend. Some key points of his 75 minute call were: 1) Global growth is flat and manufacturing in the US is weak. 2) Negative interest rates, which are widespread in Europe and in Japan, are bad for banks. 3) If the commodity rally peters out, companies relying on higher prices will suffer, defaults will increase and high yield bonds will go lower. In summary, now is not the time to buy risk (stocks and high yield bonds). The S&P 500 might have 2% upside potential but 20% downside risk (ugh!). However, he did make one positive point, stating that one of his most reliable recession indicators is not forecasting an imminent recession. This indicator flashes a warning when the unemployment rate begins to move higher than its 12 month moving average. This signal is not even close to triggering.

So with a stern warning from Mr. Gundlach, I do take notice and continue to exercise caution with our portfolios. However, I do need to make you aware that there are some prominent voices out there who have a more upbeat market view. Dr. Martin Feldstein, renown Harvard economist wrote a Feb. 21st op-ed piece in the Wall St. Journal entitled "The American Economy is In Good Shape". "Incomes are rising, unemployment is falling, and industrial production is up sharply" he wrote. "Households are in good shape. Real disposable income is up and real GDP growth this year [should] be above 2.5%.." And real world (as opposed to an economist) hedge fund manager Dan Loeb thinks that the recent sell-offs have created "silly cheap stock prices". "The reality is that things are actually better than most people think". As always, I will be watching with a careful eye to see how this plays out.

2015 IRA Contributions - You still have until April 18th to make your IRA contributions for tax year 2015. Let me know if you need my help with this. I will be out of town April 14th and 15th, so if you do need my help, make sure you get in touch with me before then. *Jeff Feldman*

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