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
14,974	1,614	3,379	954	1.75%	6.57%	$1,470	$95.61

Investment Strategy Report

Dow Hits 15,000 As Sell in May Crowd Misses Out

Yes, I know that we've had only 3 trading days in May thus far, so it's a bit early to declare victory for investors who shunned the "Sell in May" maxim and decided to keep riding the stock market rocket. But you do have to admit that this market's rise to record highs continues to be impressive. First the Dow hit a record high in early March followed by the S&P 500 doing the same by the end of March. Many thought that the S&P, breaking through this milestone level reached before only at the market peaks back in March 2000 and October 2007, would need some time to digest its gains before moving higher. Well, the market spent about 3 days in April retrenching, on the 15th, 17th, and 18th, and that was about it. It ended April at a record high and added to those gains with yesterday's big advance.

The stock market treaded water the first 2 trading days of May, heading into yesterday's all important April Nonfarm payroll report. And that report was the catalyst needed to propel the averages to another record high close. 165,000 new jobs were added in April, about 20,000 more than estimated. But more importantly, the numbers for February and March were revised upwards by a total of 114,000, bringing down the unemployment rate to 7.5%. This added confirmation to the recovering economy scenario and sent the market averages up another 1%. The stock market is now up about 20% since Nov. 15th with hardly more than a 3% pullback along the way. This is very rare for stocks which tend to have fairly high volatility and very often take 1 step back following 2 steps forward. Investors who missed the boat are still waiting for that 1 step back so that they can join the party at hopefully cheaper prices.

An improving jobs picture as well as a strong housing recovery and improving automotive sales are all positives for our recovering economy. First quarter corporate earnings have all been reported now, and it appears that companies experienced fairly decent year over year earnings growth of about 4-5%. However, revenue growth was only about 1.5%, which indicates that companies were able to cut costs to increase profits despite mediocre sales. On 4/29, CNBC's Jim Cramer was a bit puzzled that we were hitting new highs while some of the bellwether blue chip American companies were delivering weak earnings. He mentioned the following companies as all having reported disappointing earnings: Apple, Exxon Mobil, IBM, Amazon, 3M, ATT, Proctor & Gamble and about 10 others. He surmised that maybe the stock market was forecasting a strong second half rebound. He postulated that if companies stopped disappointed, maybe the market would surge even higher.

You have to hand it to my guy Steve Sjuggerud (StansberryResearch.com) who has been bullish for the longest time. He continues to advise not to be afraid of market tops, and that markets can climb higher than anyone thought possible. He is now saying that stocks have entered Act II of this bull market. In Act I, investors invested in the safest, dividend paying blue chips. Now, he feels that investors have begun branching out into riskier assets, such as tech stocks. He predicts that there will also be an Act III at some point in the future in which investors take on even more risk, reaching a speculative phase. He feels that this bull market still has a ways to go. Of course, his views are more long term, and advises that short term pullbacks can always occur.

Our bond strategy still working well - Many of you have been calling me lately, becoming concerned about bond funds after hearing all the negative press that they've been getting. Now is a good time to review our strategy since following yesterday's stronger than expected jobs' report, interest rates spiked higher. The yield on the 10 year Treasury increased from 1.63% to 1.75%, a substantial move. Many of you understand that rising interest rates have an adverse effect on traditional bonds as their values move inversely to the direction of rates. Our traditional bond funds did lose some value yesterday. However, our non-traditional or more moderate bond funds actually did well, more than offsetting the loss in the traditional funds. And for 2013 as a whole, our bond funds on average are up nicely, approximately 3.5%. This compares with more traditional bond funds like the Vanguard Inflation Protected bond fund, which is down 0.4% this year. And of course bond funds do quite a bit to soften the blow when stocks fall, in case the sell in May crowd does begin to gain favor. *Jeff Feldman*

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