# Rochester Financial Services

*Fee-Only® Financial Management Services*

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Principal

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| Dow Jones | S&P 500 | NASDAQ | Russell 2000 | 10 yr Treas | Earnings Yield (S&P) | Gold | Crude Oil |
|---|---|---|---|---|---|---|---|
| 20,951 | 2,390 | 6,075 | 1,389 | 2.36% | 5.44% | $1,229 | $45.53 |

## *Investment Strategy Report*

### *Stocks Rebound As Nasdaq Hits Record High*

After faltering in March, stocks regained their footing in April, with the S&P 500 notching a modest gain of 1.0%. The Nasdaq did a bit better, moving ahead by 2.3% as strong gains in tech stocks propelled the index over 6,000 for the first time, hitting a record high. The march upward for stocks continues yet investors still seem concerned.

They feel that post-election euphoria is beginning to wear off, as investors begin to realize that all the campaign promises may face stiffer challenges in Congress than first thought. They are also concerned that as stocks hit all-time highs, they are no longer cheap. Being priced to perfection, they are more susceptible to corrections should the rosiest of scenarios not pan out. And of course, after eight plus years of a bull market, they feel that the party can end at any moment and therefore want to get out before any of their profits are given up.

Contrarian investors realize that a healthy dose of skepticism is needed to keep a bull market intact. Complacency can be a killer and is one of the signs of a market top. Think of tech stocks in 1999 or the housing market in 2006. Nothing like that exists today. We also don't have any signs of an imminent recession. Our economy is basically at full employment with the unemployment rate now at about 4.5%. The index of Leading Economic Indicators continues to show strength. Small business optimism is surging and the Citigroup Economic surprise index is showing that reported economic data is much better than expected.

And it isn't only the US economy that is doing well. For the first time in quite a while, the global economy is showing a coordinated expansion. And this expansion has a lot of room to run as the rest of the world has much catching up to do relative to the economic growth in the US.

Steve Sjuggerud (StansberryResearch.com), has been one of the few analysts who have gotten it right, staying bullish through all the ups and downs during the last 8 years. However, despite the longevity of this bull market, Steve is even more bullish now, stating that he feels that we are now entering the "melt-up" phase of this bull. In an interview he gave on April 28th, he repeated his two predictions that he made at the beginning of this bull market, 1) that interest rates would stay lower than anyone could imagine, and 2) that these low interest rates would drive stock prices higher than anyone could imagine. Stock prices haven't reached their peak yet, he said, especially relative to the low interest rates. He feels that we might now be in the 7th or 8th inning and the biggest gains occur in the last innings.

Steve is also a big bull on emerging markets and China in particular. While the volatility in these markets is higher than that of the US, the long term growth prospects in these countries should prove profitable for investors in the long run. As you know, I have begun to add foreign investments to our portfolios and will continue to do so if this trend continues. The markets in Europe will continue to be strongly influenced by the geopolitics of the region. Following the French election results of April 23rd, European markets surged higher. Should the geopolitics in Europe stabilize, the rebounding economies there should become the dominating factor in those countries' stock markets.

I need to balance Steve's bullish view on the markets with some of his colleagues' caution at Stansberry Research. Porter Stansberry and Justin Brill point out that there appear to be some cracks forming in the credit markets. "In recent months, we've shown how default rates for auto loans, student loans, and even high yield "junk" corporate debt have been quietly ticking higher". They go on to state that Capital One Financial, one of the largest credit card lenders reported a stunning 20% year-over-year decline in net income. My bottom line: there still appears to be plenty of opportunities in this market. But it never hurts to proceed with caution. *Jeff Feldman*

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