

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)	Differ- ential	Crude Oil
10,404	1,116	2,274	643	3.61%	6.68	-307	\$78.70

Principal


Investment Strategy Report

Can Stock Market Continue to Climb Despite Weak Jobs Data

The stock market got off to a good start this first day of March, with gains of between 1 and 2% in the major averages. This follows a positive February with gains of from 3 to 4%. The losses from January have now been erased and the stock market is now slightly positive for the year. However, just a few days ago, when the weekly claims for unemployment numbers were released this past Thursday, it seemed like the lack of new job growth was going to torpedo this struggling market. The optimists had thought for sure that by now, the recovering economy would have started adding jobs. Instead, with unemployment claims rising, it seemed like the bulls didn't have a leg to stand on.

In the midst of all of our domestic problems, what about the tumult going on in Europe? Is Greece going to default? And if Germany and France were going to help bail out Greece, what about Spain, Portugal, Italy and Ireland? This all seems reminiscent of 2008, when after Bear Stearns went down, the talk from Bernanke et al during that summer was that the risks were contained. Everything would be OK.

A client called me last week and thought that maybe it was time to hunker down into a much more defensive position. After all, not only were the European countries facing enormous budget deficits and possible defaults, but our government seems to be headed down the same path, with extraordinarily large deficits well into the remainder of this decade. Well, another client had just recently mailed me an article from the NY Times (2/5/10) written by Paul Krugman entitled "Fiscal Scare Tactics". Krugman's view is that "running big deficits in the face of the worst economic slump since the 1930s is actually the right thing to do. If anything, deficits should be bigger than they are ... to create jobs. Once the economic crisis is past, the US government will have to increase its revenue and control its costs. But there's no reason to panic about budget prospects for the next few years or even the next decade." He blames politics and the press for scaring the American public. He talks about "the sudden outbreak of deficit hysteria". "Dubious allegations, not back by hard evidence, are being reported as if they have been established beyond a shadow of a doubt". You might disagree with him but then again, he did win the Nobel Prize!

Louis Navellier probably would agree with him. In his latest newsletter he states that in regards to the status of Europe's economy, "these doomsday scenarios are vastly overblown. On top of all this, the German and French governments formally announced ... that they were backing a rescue package for .. Greece. Germany and France have a vested interest in keeping the euro strong and Greece's bond market functional". Steve Sjuggerud wrote last week (2/26, stansberryresearch.com) "The Recession is Most Certainly Over". He points to a very favorable yield curve that should lead to a financial boom in the months ahead. He states that it will last until the Fed is forced to raise interest rates to the point where short term rates (currently at 0%) are higher than long term rates (currently at 3.61%).

Following the release last Thursday of the poor jobs report, the Dow plunged lower by over 200 points before recovering to end the day down just 50. The market stabilized on Friday and had a nice up day today. So it seems that at least for now, the stock market is focusing more on the economic recovery and not letting the negative headlines get in its way.

Going for Gold – Sorry for the lame reference, but last week, I added exposure to gold funds for many of you who don't already have exposure in your portfolios. I first purchased precious metals funds for clients back in late November 2003. The price of gold had just hit \$400 an oz. It continued higher for a while then dropped. It has been a very volatile roller coaster ride ever since. It has been fairly profitable over the years as gold climbed to \$1,200 back in December and now sits at a little over \$1,100 an oz. But for about half the time, I have cursed ever getting involved with it because the declines can be precipitous. Swings of 30 to 40% are not uncommon. However, for those clients who can tolerate a small exposure to the sector, I think that it is important because of what is going on in the global economy. Printing presses are out of control throughout the world, with countries spending with abandon, attempting to climb out of the recession. As a result, paper currency debasement is almost guaranteed. Gold will serve as a hedge, as a form of insurance against further devaluation of all currencies. Gold underwent a parabolic rise from September to its high of \$1,200 in December. The price has now corrected over 10% and gold stocks have fallen 25% from their highs. Now seems to be a good time to take new positions. *Jeff Feldman*

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