

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)	Crude Oil	Gold
12,067	1,308	2,748	811	3.48%	7.15	\$102.66	\$1,432



Investment Strategy Report

As Oil Price Surpasses \$100 Mark, Will Stock Rally Be Stifled?

The price of a barrel of oil closed above \$100 today for the first time since the roller coast ride of 2008. Once again, there are fears that the price of gas will close in on \$4 a gallon. This will lead to what amounts to a tax on the consumer, putting a lid on consumer demand and risking another economic slowdown. Investors are already skittish. They have watched the market averages rise about 30% from September 1st and know that the party has to end sometime. How far can the markets climb with turmoil in the Mid East, financial problems in Europe, and the sorry state of affairs of both the US government and the state and local municipalities across the country? Something has to give and maybe the high price of gas will be the straw that breaks the market's back.

For those of you who would like some reassurance, I recommend that you listen to or read what Warren Buffet has to say. The chairman of Berkshire Hathaway was on CNBC this morning and he is still the optimist, confident that our country's best days are ahead of us. While he is not interested in predicting short term movements in the stock market, he is able to analyze the businesses that his company owns. And across the board, business is getting better. Profits are growing and workers are getting more productive. Increased productivity and longer work weeks are two reasons why companies have not had to expand hiring. However, at some point, companies will have to resume hiring new employees in order to expand production.

Fears that the consumer is dead are unfounded. New vehicle sales have begun to pick up. Retail sales have rebounded to pre-recession levels. Even in housing, there is hope for a recovery. With low interest rates and the crash of housing prices over the last 4 years, housing is at its most affordable in over 20 years. It's hard to imagine that housing is recovering, but companies like home builder Toll Brothers and home improvement companies Home Depot and Lowes are showing healthy profit increases.

Uncertainty over oil prices might keep us in a trading range for a while. But instead of focusing on all the problems we are facing, the stock market will most likely focus on the economic recovery that continues to move ahead.

Gold, Emerging Markets and Bonds - It appears that this update is becoming a monthly feature. The reason that I have highlighted these 3 areas is because I have identified trends in these sectors that I have used or plan to use to our advantage. Our investment in precious metals (gold) funds last year gave a big boost to our performance since these funds were up on average 40-50%. As I mentioned last month, these funds pulled back as the price of gold per oz. fell from around \$1,420 to \$1,310. Since then, gold has rebounded nicely and has surpassed its previous high, closing at an all time high today of \$1,432. It seems like the bull market in precious metals has resumed, so I will be maintaining and possibly adding to our positions here. Emerging market funds also corrected last month, as inflation concerns worried investors. We have not seen a rebound yet in these funds, but they have stabilized. So for now, I am on hold. Because of their superior growth prospects, these markets have the potential to significantly outperform their US counterparts. Hopefully a little patience now will be rewarded over the long term. And finally for bonds, I am carefully watching the direction that interest rates are moving. As many of you who read and watch the financial press know, rising interest rates can have an adverse effect on bond values. After spiking higher in November and December, interest rates have remained in a range for the last 2 months. Therefore, our strategy of using funds that can do well in a stable or rising interest rate environment remains the same.

Schwab Corrected 1099's - For some of you with Schwab non-IRA accounts, corrected 1099 statements were mailed out last week. You should be all set now for your taxes. If you have any questions about whether you have all the necessary forms, please give me a call.

New Addition to the Feldman Clan! - On Feb.22nd, our daughter Canaan Lundquist gave birth to a baby boy Milo. This is our second grandson. My daughter and her husband Randy also have a soon to be 6 year old boy, Harrison. *Jeff Feldman*

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