


Rochester Financial Services

Fee-Only® Financial Management Services

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May 3, 2010	2 pm	Dow Jones	S&P 500	NASDAQ	Russell 2000	10 yr Treas	Earnings Yield (S&P)	Crude Oil	Gold	Principal
		11,167	1,203	2,500	730	3.70%	6.34	\$1,183	\$86.26	

Investment Strategy Report

After 8 Up Weeks, Stock Market Hits Some Resistance

Up until last week, the stock market has been able to digest most of what was thrown at it. Whether it was the financial problems of Greece and the European Union or the continued high unemployment numbers, stocks rebounded sharply from their mid February lows to reach new 19 month highs. That 8 week winning streak ended last week, but even more worrisome was the marked increase in volatility. The Dow fell a large 213 points on Tuesday. It rebounded 122 points on Thursday but then suffered another large setback, falling 159 points on Friday. With investors not accustomed to such large swings, the fear index moved higher. Not helping matters was the government's case against Goldman Sachs which has sent that stock down now more than 20% from its recent high. Or the oil spill in the Gulf of Mexico which will ultimately cause billions of dollars of damage. Or it could be that the markets were tired and were just due for a pull back.

As we begin a new trading day and a new trading month, stocks seem set to resume their winning ways. This weekend's agreement of the European Union to help bail out Greece most certainly is a help. But more important is the overriding sense that the US economy is continuing to make progress. Last month's jobs report, released on April 2, which showed that 160,000 new jobs were created during March, seemed to mark a change in trend for the employment picture. Now investors will be faced with another type of fear - the fear that strong job gains will propel the stock market higher, leaving those underinvested behind. With the anticipation that this Friday's job report will be another strong one, investors sense the need to get invested.

Other news propelling stocks higher today is the announcement this morning of a merger between United Airlines and Continental. Merger activity is always welcome news in assessing the health of the economy. Also coming out today was the Institute for Supply Management (ISM) report for April. This report, which stated that economic activity in the manufacturing sector expanded in April for the 9th consecutive month, helped stocks to jump higher.

On his update of 4/27, Jay Chitnis (Yieldquest.com) listed several other economic indicators that are pointing to a stronger than expected recovery:

- An improved housing sector - housing activity has picked up and it is not all due to the home buyer tax credits. Housing affordability is up and individuals are realizing that buying is now more favorable than renting.
- Leading economic indicators are on the rise - the index has reaccelerated even if you strip out the financial components (which are rebounding from their steep decline). The real economy is doing very well.
- Consumer Discretionary index (IXY) is up 25% from the February bottom - strong consumer spending is helping to propel the economy forward.
- Home building stocks have broken out to the upside - which is a good indication of better times ahead for the home construction industry.

While no one feels good about our current economic environment with still millions unemployed and countries and cities facing bankruptcy, the reality is that earnings for corporate America continue to recover. And strong profit growth is propelling stocks higher, at least here in the US. Foreign economies for the most part are not faring as well as ours, so overweighting our portfolios with US stock funds will continue to be my strategy.

I talked last month about the potential danger of rising interest rates. Of course as soon as I mentioned that, rates peaked, with the 10 year Treasury hitting 4.0% and then proceeding to drop to its current level of 3.70%. It seems like everyone "knows" that rates are going higher. Well, apparently investors like the relative safety of US Treasuries, so at least for now, rates are trading within a range. I have not taken any corrective action yet but will remain on guard.

Gold Update - Our move into precious metals that I spoke about in my March letter has been paying off for us. The flight to the safety of the one true currency should continue as the devaluation of paper currencies around the world continues. However, please be aware that while I expect this trend to continue, the road higher will definitely have some bumps in it. *Jeff Feldman*

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