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
17,384	2,012	4,624	1,165	2.34%	6.21%	$1,168	$77.47

Investment Strategy Report

October Plunge Is Followed By A Stock Market Surge. Should We Expect More Volatility?

Let's just say that I'm glad October is over. Yes, the markets did end up in positive territory, but getting there did require enduring a gut-wrenching roller coaster ride. I have been saying for months now that October begins a seasonally favorable time for the market, so if we made it to October, we should be OK. I also have been saying that the stock market often finds a bottom in October. I guess if you put the two together, I pretty much nailed it!, a severe pull back followed by a violent rebound to end up in positive territory. That's not how I expected it to happen, but the markets usually find a way to surprise us.

Market volatility has dropped considerably during the past few weeks, so it looks like we're doing much better now. However, after the big run up we've experienced since the Oct. 15th low, I would not be surprised to see a pause in the action for a while, if not a pull back to reduce the current overbought conditions. Of course, tonight's election results could go a long way towards pushing the markets in one direction or another. This Friday's job report could also be an important factor. The growth in new jobs has been very strong this year and the weekly unemployment claims have been dropping. A favorable job market should be able to support further gains in stocks.

So it very well might turn out that the third year of the presidential cycle will once again prove to be a good year for stocks. Not only are corporate earnings reports coming in strong, we are also getting much help from the world's central banks. Our Federal Reserve stated at this past month's FOMC meeting that they are in no rush to begin raising interest rates. The much anticipated first interest rate rise might not occur until the second half of 2015 instead of prior projections of April or June of next year.

But more importantly, we are getting very positive statements from both the European Central Bank and the Bank of Japan. Both institutions have stated that they plan to continue to be very accommodative, making sure that money continues to flow to their economies to help stimulate growth. These comments last month helped contribute to the surge in the US stock market during the last few weeks.

So we can also add low interest rates as a factor helping to stimulate growth as well as a positive force in helping to prop up the stock market. Everyone has been expecting a rise in interest rates for years now, yet here we are with a 10 year Treasury yield of 2.34% after beginning the year with the yield at 3.00%. But compared to rates in Europe and Japan, our rates can be considered high, as the 10 year yield in Germany is less than 1% and in Japan, less than 0.5%. Rates don't necessarily have to surge higher next year. We might see a gradual rise, but with global growth still suspect, our yields might stay at a reasonable range, continuing to help spur growth.

Lower oil prices have also been a major topic of discussion this past month. The price of a barrel of oil hit a low of $75 today, before closing at $77.47. This represents a steep decline from a price of $90 per barrel just 4 weeks ago and a price of $104 per barrel only a few months earlier. Very often declining oil prices indicate slowing demand and therefore a slowing economy. However, it appears that this decline is due partly to an increase in supply but also because of the Saudis cutting the price of their oil in order to gain market share. Whatever the reason, this has led to a substantial drop in gasoline prices. This will result in more money in the pockets of consumers and a significant boost to our economy.

Required IRA Distributions - I apologize for not getting to this last month, although as you can imagine, this past month has been a busy one for me. I will hopefully begin contacting those with required distributions some time during the next few days. *Jeff Feldman*

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