

Rochester Financial Services

Fee-Only* Financial Management Services

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Principal

October 4, 2015	Dow Jones	S&P 500	NASDAQ	Russell 2000	10 yr Treas	Earnings Yield (S&P)	Crude Oil	Gold
	16,472	1,951	4,708	1,114	1.99%	6.41%	\$1,137	\$45.28



Investment Strategy Report

We're Not Out of the Woods Yet

Stocks showed a good deal of resilience last week, giving some hope to investors who have had a rough ride the last 6 weeks. Following the mini market collapse we had at the end of August, stocks fought their way back. By mid September, stock prices had moved about 7% off their lows. I wrote last month that while investors were feeling a bit better after the recovery, a common scenario following a sell off often involves a retest of the lows. Although I was hoping that we wouldn't see that this time, sure enough last Monday, the markets tumbled again, with the S&P 500 coming within less than a percent of the Aug. 25th low. Fortunately, stocks ended the month with a nice gain and added to those gains on Friday.

What made last week's gains most impressive was that on both Thursday and Friday, stock prices made significant upside reversals, meaning that they began the day lower but then reversed higher. Friday's reversal apparently was the largest stock turnaround in 4 years. After opening lower by 260 points, the Dow ended the day up 200 points. Even more impressive was that Friday's gains came after the release of the September jobs report which came in much weaker than expected. If stocks could rally in the face of bad economic data, maybe the worst was now over.

However, as I point out in this letter's title, one good week does not mean that this roller coaster ride is over. Volatility is still high and October is known for playing tricks on investors. October, though, is also known as being a bear killer, as many market downturns have bottomed out and recoveries have begun. One point to keep in mind is that market corrections usually need time to run their course, and the more time that passes from the August correction, the better off we will most likely be.

While market risk remains high for the short term, over the longer term the outlook still remains favorable. This is basically a summary of the latest report from Sentimentrader.com, which gives short term risk an 8 (out of 10), but gives intermediate risk only a 3. This is based on the extreme negative sentiment that we saw in August and again in September during the retest period. Widespread pessimism is more a sign of a market bottom than a market top.

Higher stock prices are of course not a guarantee and there still are many concerns that can prove troublesome. Last Monday's stock drop was caused by concerns of weakness in China. And Friday's job report indicated possible weakness in the US economy. Prior to this report, we had seen signs of economic strength, with positive data in auto sales, the housing market, and in employment. Following the weak jobs report and looking at the Dow drop over 200 points Friday morning, I admit that I did begin wondering whether the seemingly robust economy was beginning to show signs of weakness. And then when the market rallied, I, like everyone else, was wondering, why the turnaround.

The release this month of the third quarter corporate earnings results will be a key factor in determining whether the economy has enough momentum to carry stock prices higher. One significant drag on earnings for 2015 has been the weakness in the oil sector, as energy companies have seen their profits slashed due to lower oil prices. Should the price of oil stabilize and /or move higher, that would be a positive for profits for those companies.

Another cause for lower profits this year has been the strong US dollar. This has caused the cost of US goods to rise, thereby reducing the demand for our exports. This might explain Friday's stock market rebound. Weakness in the US jobs picture lowered the chance of a Federal Reserve rate hike and therefore caused the US dollar to weaken. A weaker US currency might turn out to be a positive for our economy.

IRA Distributions - During the next few weeks, I will be contacting those of you who are required to make IRA distributions before the end of the year, either because you are over 70 1/2 or because you have an inherited IRA. *Jeff Feldman*

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