

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)	Crude Oil	Gold
10,830	1,146	2,371	679	2.53%	7.00	\$81.52	\$1,321



Investment Strategy Report

A September to Remember

After a terrible August, investors then had to listen to the market pundits who warned that September is historically the worst month of the year for the stock market so watch out! Good luck to those "experts" who think that they are clever enough to have the market figured out. The stock market always manages to surprise the majority of investors most of the time. Last month was a prime example. Amidst talk about the "Hindenburg Omen" and a double dip recession, the stock market shrugged all that off and scored its best September since 1939. The S&P 500 and the Dow were up 8.8% and 7.7% while the Nasdaq gained 12%! What changed from the dark days of August to the carefree days of September?

To begin with, the Sept. 3rd jobs report came in better than expected. While unemployment still stands at a discouraging 9.6%, the markets had been factoring in a worse report, so any hopeful news was viewed favorably. In addition, initial jobless claims have been trending lower, which should lead to a better employment picture in the not too distant future. Another positive development has been the rise of merger and acquisition activity. It seems like every other day, we hear about companies being bought out. HP and Dell competed in a bidding war to buy 3Par. BHP Billiton is trying to buy Potash. This is a sign that a) companies are flush with cash and want to use it to grow their businesses and b) the companies being acquired are trading at cheap valuations, making them attractive targets. These deals put upward pressure on stock prices.

There are also projections that we will see a rebound in 3rd quarter GDP (Gross Domestic Product). After a robust 3.7% reading in the 1st quarter, GDP dropped to 1.7% in the 2nd quarter, which sparked the concerns about a double dip recession. Part of the reason for the 2nd quarter drop, though, was strength in the dollar, which causes our exports to become more expensive to foreigners. But over the past several months, the dollar has dropped about 10% which should be a stimulus for our exports and cause our GDP to move higher.

Investing in Emerging Markets and Gold - However, probably the most important explanation for the recent surge in the stock market has been that emerging markets have become the engines for global growth. While the developed countries remained mired in the problems caused by the financial crisis, the emerging countries are growing at rates two to three times faster. As opposed to previous recessions in which the US was the engine of growth that brought the rest of the world out of a slump, the emerging countries are propping up the rest of the world. Why else are commodities and industrial metal prices surging, with copper just recently surpassing its April high. The South Korean stock market, which is a good indicator of global growth, has broken out and is only 10% below its October 2007 high. As Bill Gross of PIMCO points out, with the US stuck in a new normal environment with growth rates of 2-3%, there is no way to produce double digit stock market returns. The only way to do that is to invest where growth is proceeding at a faster rate. Which is why I have significantly increased our exposure to emerging market stock funds over the last few months. I have also put more money into gold stock funds. The world's major economies are getting deeper into debt and will have to continue to print more money to service that debt. "An international currency war" has broken out, according to G. Mantega, Brazil's finance minister, "as governments around the globe compete to lower their exchange rates to boost competitiveness". While stocks surged last month, the dollar lost 8.4% of its value. So in gold terms, we didn't even break even. With gold at a record high now, it is overbought and due for a correction. But its long term prospects still look promising.

Away Next Week - Just a heads up to let you know that I will be out of the office next week, Oct. 11th -15th. This will likely be the last opportunity my wife and I will have to visit our daughter down in Buenos Aires. She has been down there for a year now and will be coming back in December. While I don't usually like to be away for long stretches at a time, I will have things covered. With GoToMyPC.com, I will have access to my home computer and with calling cards, I will be able call to the US very easily. So if you need anything, including trading in your accounts, please don't hesitate to leave me messages, voice or email, and I will get back to you. Also, when I get back, I will be contacting those of you who have required IRA distributions to make before the end of the year to take care of that. So, Hasta Luego! *Jeff Feldman*

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