

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
17,010	1,968	4,476	1,105	2.45%	6.35%	\$89.74	\$1,193



Investment Strategy Report

Stocks Hit a Rough Patch As We Struggle Into October

As I mentioned on July 4th when the stock market was sitting at an all time high, I was concerned that stocks might hit some turbulence some time during the summer as they tried to make it into October, the beginning of a seasonally favorable time for the markets. As it turned out, stocks made it all the way to September 19th before hitting the brick wall that I was fearing. On that day, the S&P 500 hit an intra-day high of 2019 before closing lower for the day. That was also the day of the Ali Baba IPO, when investor exuberance might have hit a high point. From then until Oct. 1st, the index lost 3.6% of its value before rebounding 1.1% this past Friday (of course, following the old maxim, sell Rosh Hashana (S&P 1998) and buy Yom Kippur (S&P 1946) would have worked like a charm this year).

The question now is whether Friday's strong rebound is in fact signaling the all clear sign. While October has gotten the bad rap of being the month of market crashes, historical returns show that the stock market has on average been positive for the month. October also has the reputation of being the month when stock prices have bottomed out and market rallies have begun.

Market maxims aside, it was apparent that Friday's market surge was the result of the strong jobs' report. The September non-farm payrolls report showed that 248,000 new jobs were added in September, with the unemployment rate falling to 5.9%. The number of new jobs added was a significant increase from the August number of 142,000 new jobs and a 6.1% unemployment rate. This strong improvement in the nation's job picture was a confidence booster for investors, as last month's weak report had raised concerns that the jobs recovery might be weakening. As I have said often before, as long as the employment picture continues to strengthen, the stock market will find support.

The stock market pull back last month was also accompanied by a spike in market volatility. While the large cap indices didn't experience large losses, the more volatile small cap and emerging market stocks did not fare as well. Small caps have been struggling all year. This year's underperformance follows last year's significant outperformance. So it's hard to say whether the lagging small cap stocks are a leading indicator of what to expect for the rest of the market, or just an offset to last year's large gains.

I was very disappointed in last month's very poor performance of the emerging markets. They had been doing fine for much of the year and then began outperforming during the summer. My thesis had been that these markets had not experienced the same run up in prices as US stocks during the last few years, so they represented much better values. This is especially true since they also sport much higher growth rates than the developed countries. However, the dramatic strengthening of the US dollar over the past few months was probably a significant factor in their poor performance. While I still expect good things from this sector, I will be deciding during the next few weeks whether to hold onto these funds or to jettison them now and wait for a better opportunity.

September was also a tough month for bond funds. Rising rates and a jittery market took their toll on some of our funds. I cancelled a sell order this past week as the bond market began to settle down. But again, I'll continue to watch them closely.

Required IRA Distributions - For those of you required to make IRA distributions this year, either because you are over 70 1/2 or have an inherited IRA, I will be contacting you shortly to help you take care of this if you haven't already done so.

My Interview on Satellite Radio - is now posted on my website. Go to RochesterFinancial.com and scroll down to the middle of the page. Click on the link in green, "Jeff's Interview on Wharton School Business Radio" and click on "Download" to download it. *Jeff Feldman*

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