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
21,988	2,477	6,435	1,414	2.16%	5.45%	$1,330	$47.35

Investment Strategy Report

Stocks Rebound To Approach All Time Highs

Four weeks ago, I wrote about how stocks were hitting all time highs, causing apprehension among investors. The major US indices peaked within a day of that report, and then proceeded to slide 1.9% for the Dow, 2.3% for the S&P 500, and 3.3% for the Nasdaq. Market sentiment went from ebullience to nervousness in just a day or two. It seemed that investor concern was now justified, as geopolitical events and sky high stock prices would precipitate the long awaited correction.

However, the nascent correction could only muster the above modest losses, before spiking higher the last week of August. There was no special catalyst sparking the recovery, just solid earnings reports and economic data. Last week's recovery brought the Dow and S&P 500 within points of their all time highs, while the Nasdaq surged past its previous high to end the week at a new record. It appears that this market will not stay down

The cover of this weekend's Barron's reads "How This Bull Market Will End". It seems that everyone is trying to time the end of this bull, or on the lookout for a major downturn. However, the article goes on to say, "Time to freak out about the imminent end of this great bull run? We think not. Neither longevity nor high stock prices nor political turmoil usually are enough to send stocks into a protracted slide. The culprit in nearly every case is recession". The article goes on to say that while they will be watching for factors that might cause a recession, such as an overly aggressive Fed, a collapse of China's economy, or geopolitical events, they don't see any impending dangers at this point.

Interest rates have stayed stubbornly low this year. As stocks rebounded to new highs last week, interest rates drifted lower. The Federal Reserve has shown in the past that they won't raise rates as long as the 10 year Treasury yield trends lower. As for a collapse in China's economy, their booming stock market this year points more to a solid economy than to a collapsing one. The China large cap index, FXI, is up 25% year-to-date. Of course geopolitics is always a concern, with North Korea seeming to be the biggest one. Yet the market continues to shrug off its missile launches and nuclear bomb tests, believing that nothing serious will come of it.

Stansberry Research's Dr. David Eifrig, writing in his August 21st column, stated that we are not in bubble a la 1999. This time ***is*** different. Our current low interest rate environment can allow for higher stock prices. "Mountains of investment capital continue to chase historically low rates". "The issue at hand is the massive accumulation of global wealth. We simply didn't have as much capital in the world as recently as a decade ago. While the US has long been wealthy, now the world is growing wealthier too." Since 2000, global wealth has grown from $117 trillion to $256 trillion and economic growth has exploded. "Economies and earnings are growing, and that's driving markets up."

Economist Fritz Meyer was also very positive on the economy and stock market in his August 8th economic update. He too talked about renewed earnings growth, both in the US and abroad, full domestic employment with accelerating disposable personal income, and a surge in the Leading Economic Indicators. Low inflation and the resulting low interest rate environment will keep the Fed accommodative and be a stimulus for corporate investments. An abundance of oil will keep a lid on those prices and thus be a positive for the economy. And a weak dollar (it is down about 8% this year) will be a tailwind for export-driven US multi-nationals.

While the US stock market bull is now 8 ½ years old, the global bull is only in its infancy, as global synchronized growth is just getting started. Unless signs of a recession begin to pop up, there most likely are still significant gains to be made. *Jeff Feldman*

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