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
17,098	2,003	4,580	1,174	2.34%	6.00%	$1,290	$95.96

Investment Strategy Report

Stocks Resume Their Rise To Record Highs

The action of the stock market the last 2 months demonstrates why the markets are so hard to time.. Two months ago, as I wrote to you on July 4th, the stock market was at a record high. At the time, I did express concern that I would not be surprised if we experienced a correction before hitting the seasonally favorable time beginning in October. One month later, the stock market had dropped 3.2% and I thought to myself, "If only I would follow my own advice". But here we are, two months later and the markets have not only recouped last month's losses, but have now exceeded the early July highs and sit at new all time highs.

So what has been going on in the world that has caused last month's decline and this past month's rebound? Last month I blamed the conflict in Ukraine for the previous month's decline. Has the situation improved since then? Well no. Actually the situation has gotten worse as the chances of an all out war have increased.

I'll mention again what I've been saying quite often these days to clients who have called me, concerned that they don't understand why the market continues to climb. Don't read the headlines! or Don't listen to everything you hear on TV! Geopolitical events can very easily cause short term market volatility, but over the longer term, follow the trend. The bull market uptrend has been quite impressive and the market has shown incredible resilience.

I was listening to Wharton School Professor Jeremy Seigel earlier today (on my new favorite radio station, SiriusXM radio channel 111, see below), He explained his positive market outlook as follows:

1) Earnings estimates for the 3rd and 4th quarters are looking very good.
2) It is estimated that the S&P 500 earnings will be 120 this year. Based on the current S&P price of 2,000, that equates to a 6% earnings yield of the index. Compare this to the yield on the 10 yr. Treasury of 2.34% or the yield on the 10 yr TIPS (Treasury Inflation Protected Securities) of 0.2%. This shows that stocks are carrying a much higher yield than bonds and are therefore still very attractive on a comparable basis.
3) Based on that 6% earnings yield, the S&P 500 has a Price to Earnings ratio of 16.7 (1/.06), which is very near its historical average, so the stock market is not overvalued.

Based on these parameters, he expects money to flow from bonds to stocks, continuing to push stocks higher. But don't think that I don't get nervous when stocks fall. If the market opens up Tuesday morning with a significant decline, I'll probably blame it on the rising tensions in Ukraine or that September is historically not a great month for stocks. I, like many of you, might begin to think that the inevitable correction is upon us. But guess what? We are in good company because that's what many investors, including investment professionals, are also thinking. The National Association of Active Investment Managers (NAAIM) Exposure Index plummeted in early August, indicating a high level of fear and reduced exposure to stocks by their members. These readings have reached these low levels 8 times since 2011, and each time, the stock market has rebounded strongly (Brett Eversole, Stansberry Research). This is due to the contrarian nature of this business. When investors are fearful, stocks usually do well. When everyone becomes complacent, that's when we have to worry.

My Interview on Satellite Radio - As I write this on Sunday, I am due to be interviewed this Tuesday, Sept. 2nd on Sirius Satellite radio channel 111, on financial planning topics. Hopefully by the time you read this, the interview will have taken place and I will have been able to record it so that I can send it along to you or place it on my web site. I sent out an email this past Friday to let you know about this in advance. If you didn't get that email from me, either I don't have your address or the one I have is no longer valid. Please send me your address and I'll put you on my list. Thanks. *Jeff Feldman*

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