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
26,181	2,814	7,571	1,582	3.20%	6.25%	$1,228	$61.61

Investment Strategy Report

Stocks Succumb To An October Correction. Is A Post-Election Rebound In The Cards?

October has a reputation for being one of the cruelest months for stocks. Some of the market's worst crashes have occurred during this month, so it's only natural that investors get nervous in October. While we didn't see a crash this October, we did experience a pretty severe correction that saw the losses in the major averages approach 10% before rebounding.

As I mentioned last month, there were warnings prior to last month's correction. And as I also mentioned, I did begin lightening up on stocks early in the month by selling our small cap stock holdings. But of course, that wasn't enough, as the extra cash in our portfolios only partially shielded us from the sharp sell-off. We also saw steeper losses in some of the previous market standouts, such as the growth stocks, which caused some of our funds to underperform by a few percentage points.

What prevented me from selling more of our stock holdings was my feeling that the fundamentals of our economy were and still are very strong. I would characterize last month's drop as more of a technical correction than a fundamental one. Investor complacency had gotten too high and the market had been moving up in a straight line with very little volatility. Every so often, the market likes to shakes things up and without necessarily any fundamental reason, will throw some fear onto investors. But nothing fundamentally has changed. Another reason that I didn't do more selling was that the correction was basically over after 2 days. The market dropped a total of 5.3% on October 10th and 11th. If I had sold then, yes, we would have missed out on another 2-3 weeks of volatility. But the market is now about 3% higher than its Oct. 11th close, again pointing out how difficult it can be to time the market.

In addition to strong economic reasons to be bullish right now, there are many other reasons to think that the worst may be behind us. To begin with, the ferocity of the selling pressure last month, in and of itself, is a positive factor for stocks. All my analysts are in general agreement on this point. From Steve Sjuggerud at Stansberry Research, Jason Goepfert at Sentimentrader.com, and Louis Navellier, they point out that the market has a strong tendency to snap back from such an oversold position. Whenever the Relative Strength Index (RSI) of a security falls below 30, it's an indication that it is oversold. In October, the RSI for the S&P 500 dropped to 17.6. It is only the 6th time in the past 30 years, that it has dropped below 20, and each time, it has rebounded in every time frame from 2 weeks to 3 months (from Stansberry Research).

With stocks still down about 5% from their highs, another benefit for us is that they are now that much cheaper. Since earnings are up over 20% vs. last year but with stock prices basically flat on the year, stocks have gotten to fairly cheap valuations.

Another positive for the stock market is that we are now in an extremely favorable season for stocks. Looking back historically during the 12 months following a mid term election, US stocks have consistently moved higher. While there are of course no guarantees, the odds are definitely in our favor.

The set up for stocks is looking fairly good right now, and if the stock market continues to act well, I will be looking to use the cash in our portfolios to add back to our stock positions.

IRA Distributions – Several weeks ago, I emailed instructions to all of you who need to make IRA distributions before the end of the year. If you didn't receive this or need help, please call me so we make sure that it gets taken care of. *Jeff Feldman*

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