

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
24,346	2,649	6,968	1,491	2.79%	5.74%	\$1,338	\$63.54



Investment Strategy Report

Market Calm is Gone as Big Shock Day on Friday is Followed by a Collapse on Monday

I chose a very inopportune day to write this monthly report. As I began writing it this morning, it appeared that the markets were beginning to stabilize after this past Friday's big market drop. After losing 666 points on Friday and beginning the day today down about 250, the indices fought their way back to even by mid-morning. But early this afternoon, the slide continued and panic set in. As euphoric as the markets were to the upside these past 15 months, the coin flipped in the opposite direction today.

At one point, the markets were in free fall as they fell close to 1,000 points in less than an hour, to down 1,600 points on the Dow. They then recovered to down only 800; but could not hold there, and closed the day down 1,175, the largest point drop ever.

I know that you are all concerned about your portfolios and want to know what we should do now. Is this the end of the bull market or just the much anticipated correction, i.e., should we sell to cash or hold through this. My answer is that I don't believe that this is the end for a variety of reasons. Over the weekend, I turned to one of the best sources of what to do during market panics, Jason Goepfert of Sentimentrader.com. At times like these when traders trade on technicals and fear, market fundamentals don't carry much weight in the short term. Jason tracks investor sentiment and compares it to similar occurrences in the past, to try to determine how markets will react in the present (keep in mind that this analysis was as of Friday 2/2).

Jason's analysis looked at 1) the S&P suffering a significant loss within a week of a 52-week high and 2) the S&P suffering its worst week in a year after setting a 52-week high the prior week. In almost all cases, the S&P 500 was higher 1, 3, and 6 months later, with a 90% win rate. He went on to say that "There have been 4 other times the S&P lost the most in six months on a Friday since the 2009 bottom, and each time, there was more selling on Monday...". "But on 3 of those 4 occasions, Monday's loss proved to be a bottom" (In his analysis for Monday 2/5, he feels that we are very likely within a day of a short term capitulatory bottom. If that recovery does occur, he will aggressively play for a strong rebound).

There are other reasons why I feel that this isn't the end of the bull market. My number one analyst Steve Sjuggerud's (StansberryResearch.com) most recent newsletter came out this past Thursday with his belief that we are now in a melt up mode, with a bull market in everything. Of course this is before the past 2 days of selling and he hasn't sent out an update yet. But I would imagine that he still feels that the market is still fundamentally sound.

Last Friday's sell-off seemed to be due to the recent rise in interest rates. The 10 year Treasury spent 2017 basically going sideways, ending the year at 2.40%. However, bond yields have begun to move higher in earnest. With the positive jobs report that came out on Friday, the 10 year yield hit 2.87%. While historically still at low levels, it was thought that it was enough of a spark to provoke a stock sell-off for a market looking for an excuse to take profits.

However, there was no economic news today that caused the selling. It was based purely on technicals and follow through from Friday's action. I can quote you all the extremely positive economic news that should keep stocks doing well. Corporate earnings growth is doing better than expected. Wage growth is very solid, etc. Despite all the solid fundamentals, fear and technical trading rule in the short term. Over the long term, the strong fundamentals should prove a positive for the market. I will try to provide you with email updates as we know more, but please feel free to call or email me if you are concerned.

Tax Forms – Your Schwab 1099 forms for you non-IRA accounts should be mailed out on Feb. 13th. *Jeff Feldman*

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