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
25,412	2,738	7,402	1,520	2.70%	6.21%	$1,319	$53.68

Investment Strategy Report

The Fed "Apologizes" and Markets Soar in January

When it comes to battles between the markets and mere mortals, expect the markets to win every time. As we discussed in last month's letter, the Federal Reserve's disappointing announcement on Dec. 19th that they planned to raise the Fed Funds rate 2 times in 2019, caused investors to panic and the markets to lose an additional 10%. This hawkish policy stood in stark contrast to the Fed Funds futures contracts which projected no rate increases for 2019, and that the next Fed move would actually be an interest rate cut, not a raise. With such a discrepancy between the Fed Chairman's stated policy and the futures market's projection, who do you think won?

When investors finally concluded in early January that there was no way the Fed could raise rates this year based on the market forecast, they jumped back into stocks. The Fed itself capitulated on January 30th when it announced, almost apologetically, following its committee meeting that it was basically on hold pending new data. One of the major stumbling blocks to stocks, restrictive Fed policy, was eliminated, paving the way for higher prices.

It's a little scary looking back at where stocks were a month ago when I wrote my letter. The Dow was at 22,686, the S&P was at 2,448, and the Nasdaq was at 6,464. Investors were still in panic mode and talk about the end of the bull market was rampant. It's also a little scary to read what I wrote back then: 1) that Steve Sjuggerud had just made his biggest commitment to stocks ever, and 2) that economist Fritz Meyer felt that a very conservative estimate for the S&P 500 for this year, based on earnings, was to reach a level of 2,720. The scary part is that here we are, just a month later, and the Dow, S&P, and Nasdaq are 12%, 12%, and 14% higher from their Jan. 3rd levels. And the S&P, now at 2,738 has already surpassed Meyer's conservative year end forecast.

After the bruising we took in last year's 4th quarter, many of you might be content to take profits here and de-risk your portfolios. The S&P 500 is currently up 9.4% year-to-date, not a bad return for a year, let alone for one month. My answer to those who are scared of this market is, for the most part, to stay the course.

To begin with, the S&P's return this year almost exactly negates its minus 9% performance for December. We are basically back to where we were 2 months ago. So for those who say we have come too far too fast, we can say that we are back to the early December 2018 levels. We also have put behind us an almost 20% peak-to-trough correction that the S&P 500 experienced in the 4th quarter. For those who thought in early October that we were due for a correction, we got a big one last quarter. We no longer have to ask, when will we get hit.

In addition, as I mentioned above, one of the biggest impediments to this bull market, restrictive monetary policy, has been now taken off the table. Another impediment, the trade dispute with China, is now being worked on. Any success in the trade talks could spur another large up move in the stock market.

A third point I'll make is that the economy keeps on chugging along, as the monthly payroll reports keep on surprising to the upside. With no signs of recession, there is no apparent reason for stocks to sell-off (again. We already did that).

However, I will say the following about reducing risk in your portfolios. Just as you should be concerned when the markets drop and you see large losses in your monthly report, you should also be concerned when you see outsized monthly gains, as we saw last month. This may indicate that your exposure to stocks is higher than it should be for your comfort level. This is something that I will be reviewing for you, but that you can check and discuss with me if you are at all concerned.

Schwab 1099 Tax Forms – Schwab has said that they have begun sending out the 1099 tax forms and that all the forms should be posted to the website by Feb. 15th. Expect the hard copies within a week of that date. *Jeff Feldman*

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