Rochester Financial Services

Fee-Only Financial Management Services*

Jeffrey Feldman Ph.D., CFP
Certified Financial Planner
Principal

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Dow Jones	S&P 500	NASDAQ	Russell 2000	10 yr Treas	Earnings Yield (S&P)	Gold	Crude Oil
24,635	2,735	7,554	1,648	2.89%	5.82%	$1,298	$65.71

Investment Strategy Report

Stocks Hit Key Levels In An Attempt To Move Higher

As they say here in Rochester, if you don't like the weather, wait a minute. And as we can say of late, if you don't like the stock market, wait a day. During this past week (5/29 to 6/1) the S&P 500 was down 1.1% on Tuesday, up 1.3% on Wed, down 0.7% on Thursday and up 1.1% on Friday. In the end, the S&P finished the week at 2,735, right at the top of its trading range that it has been in for the past 2 months. The S&P is now up over 5% from its low on May 3rd, and the hope is that this upward trend can continue.

There is a lot of positive economic data to justify these stock market gains. This past April, corporate America reported record 1st quarter profits, seeing them rise approximately 25% over the same period last year, an astounding increase. This past Friday, the May non-farm payroll data showed that the unemployment rate dropped to 3.8% last month, the lowest since the high tech boom days of 2000. And even interest rates might be cooperating. We all are aware of the threat that rising rates can pose to the economy and the stock market. It was a better-than-expected jobs report this past Feb. 2nd that sent interest rates surging and stocks plummeting, leading to a 10% correction. The 10 year Treasury yield settled at 2.89% on Friday (6/1), after hitting a high of 3.11% on May 17th. That 2.89% level is only 10 basis points higher than it was 4 months ago, so those fearing runaway interest rates might be overly concerned.

So you now know about the positive fundamentals that can support further stock market advances. As for the negatives, all you need to do is pick up a newspaper (or you iPhone) and read the current events. Talks with North Korea were on, then off, then back on again. New trade tariffs have been instituted against our trading partners. Will this help us or hurt us or is this just a negotiating ploy to get a better deal? Or will this mark the beginning of a trade war. This past Tuesday's market decline was the result of instability in Italy, as they struggled to form a new government.

The stock market hates uncertainty and the geopolitics this year have definitely caused a great deal of uncertainty. Our job as investors is to attempt to ignore the short term noise and determine the underlying fundamentals. While some short term noise can develop into long term problems, it most often is not the case. A strong economy should take precedence over presidential tweets and trade skirmishes that should at some point get resolved.

The correction in February caused a significant amount of technical damage to the stock market and expecting a simple rebound to the January highs was too much to hope for. The market needs to stabilize and establish a foundation. Once this process is complete, I expect the market uptrend to continue.

Portfolio Changes – You might have noticed that I have been busy making adjustments to our portfolios. As I mentioned above, problems in Italy last week led to a strong sell-off in Italy and other European stock markets. While it appears that things have stabilized there, the performance of European stocks has lagged that of US stocks. For those of you who had exposure to Europe, I have sold those positions. I have also sold a good portion of our emerging market positions. These stocks had been doing well for most of last year and the beginning of this year. However, these funds have been very weak as of late, so I have begun to reduce our exposure to them. In both cases, I have replaced them with small cap stock funds. Small caps, which in general have less exposure to any international issues (such as trade problems), have broken out in the last month. I have not made any changes to our bond funds which have been doing OK this year despite the rising interest rates. Our funds on average are down about 0.5% this year, compared to minus 1.9% for the Vanguard Total Bond Market fund. And the good news is that these funds now have significantly higher yields than they had 5 months ago. *Jeff Feldman*

Tel: 585 / 442-7580
Fax: 585 / 351-2458
Email: jmfeld@aol.com

7 Hastings Circle, Pittsford, NY 14534
http://www.rochesterfinancial.com

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