


# Rochester Financial Services

Fee-Only® Financial Management Services

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January 1, 2018	Dow Jones	S&P 500	NASDAQ	Russell 2000	10 yr Treas	Earnings Yield (S&P)	Crude Gold	Oil	
	24,719	2,674	6,903	1,536	2.40%	5.24%	\$1,305	\$60.10	

## Investment Strategy Report

### Which Sectors Will Lead Stocks Higher In The New Year?

2017 was a stellar year for equity investors, as US stocks advanced on the order of 20% and many foreign stock markets did even better. Fixed income investors had to settle for more modest gains. The 10 year Treasury began the year yielding 2.45% and ended the year pretty much at the same point, at 2.40%. Traditional bond funds showed a total return of 2.5 to 4.0% while multi-sector bond funds and high yield funds were able to return closer to 6-8%.

Putting it all together, our balanced portfolios showed substantial gains last year, the 9<sup>th</sup> year of the bull market. Will 2018 be the bull market's 10<sup>th</sup> year? The title of this letter implies that stocks can continue to climb in the new year. It appears that some of this year's gain were brought back into 2017 as the anticipation of the passage of the new tax bill and then the eventual passage pushed stocks to new highs in the last few weeks of the year.

After all of the excitement of last year, I would anticipate that the markets will need some time to catch their breath (I know I will). 2017 saw a steady climb throughout the year, without more than a 3% pullback. It was an extraordinary year that saw sizeable gains with remarkably low volatility. We would be naïve to expect a repeat of that this year. However, at the risk of jinxing our good fortune, I would say that there is no reason not to expect stock markets around the world to continue to march higher.

As I have mentioned before, it might be our 10<sup>th</sup> year of the bull market but for foreign markets, it is basically year 2. The global recovery is just getting started. We forget that it wasn't that long ago that fears of default in Greece and in weak banking systems in Italy and Spain led to broad sell-offs in our markets. It is now been several years since we have heard about troubles in Europe. The Eurozone is now doing very well, with growth seen as on par with ours.

Prior to last year, emerging markets faced a head wind of a strong dollar, making their economic recoveries more difficult. However, 2017 saw the US dollar fall almost 10% relative to other currencies, creating an environment that helped emerging markets flourish.

With global markets moving ahead nicely, it reduces the chances of a recession in the US, the most likely cause of any US stock market correction. Last year saw strong earnings growth among US corporations. Forecasts for 2018 are for this trend to continue. The impact of the new tax bill can only be a positive for this trend.

If stocks do continue higher this year, the challenge will be to identify those areas of the market that will be most profitable. Last year, our bias for growth stocks definitely added to our performance. Among bond funds, the performance of our non-traditional funds proved very beneficial. The jury is still out on foreign funds. While they got off to a very strong start in 2017, they definitely cooled off in the latter half of the year.

My guy Steve Sjuggerud was concerned a few months ago that one of his market indicators had turned negative. The action of the Dow Transports had weakened. However, that has completely turned around as the Transports have hit record highs. He now feels that not only can 2018 be another good year for stocks, but that this bull market can last through 2019 or even 2020. Talk like that tends to get me nervous and get my defenses up. But we're still invested and taking advantage of any more gains to come.

**New Addition** – The Feldman family added a new member last month as our daughter Sarah Carlton had a baby girl, Vivian. Vivian is our fourth grandchild. Our oldest daughter Canaan has 2 boys and Sarah now has 2 girls. Thank you to all the well-wishers!  
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