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
26,693	2,962	8,077	1,558	1.99%	5.74%	$1,403	$56.95

Investment Strategy Report

Stocks Erase May's Losses, With The S&P 500 Hitting A New Record High

It is always nice to write this letter with the stock market sitting at a new record high. This is especially the case since only a month ago, we were all commiserating with each other about the steep losses suffered in May. While I cautioned those of you who called me to ignore the headlines and concentrate on the fundamentals, talk of trade wars with China and Mexico and obstinance on the part of the Federal Reserve caused investors to grow uneasy and sell first and ask questions later. With stock prices down between 6-8% for May, investor concerns seemed justified.

However, the fundamentals prevailed in June. It seems like all we needed was a spark of hope to right the ship. With interest rates falling to 2 year lows, the Fed funds futures market is now pricing in an almost 100% chance of a Fed rate cut this July. The resolution of the Mexico immigration/tariff issue was a big plus. Optimism about the end of the month trade talks with China at the G-20 meeting (which proved correct) removed another investor concern.

Stocks ended the month with their best June performance since 1938, which followed their worst May performance since 2010. This is not a stock market for the feint of heart. We saw the same thing happen 6 months ago, when after a terrible 4th quarter, stocks surged to start the new year. It appears that while this bull market will continue for a while, it also is probable that volatility will continue. I will take this opportunity to caution you to examine your portfolios and have discussions with me about your asset allocation. Now is a good time to examine your risk tolerance and determine what rate of return objective you should be striving for.

Don't take this as a warning from me. I have been a bull for many years now and continue to be optimistic about the market's prospects. My guy at Stansberry Research, Steve Sjuggerud, still thinks that we are in a melt up phase of this bull market and it still has a ways to go. On June 17th, he pointed out that the previous 8 times since 1950 that stocks fell more than 5% in May, they rebounded an average of 18% over the next 12 months. I believe that our current situation might be characterized as a Goldilocks scenario. We have low interest rates, good earnings growth, low unemployment, very low chance of a recession, and a high degree of investor skepticism (a positive contrary indicator).

However, be aware that other very knowledgeable analysts who I follow do urge a modicum of caution. Over the past year, I have subscribed to another Stansberry analyst, Greg Diamond, who is a technical analyst/trader. He is concerned by the fact that the recent highs in the S&P 500 have been accompanied by lower relative strength readings. "The weakening relative strength is suggesting that a breakout is not in the cards just yet". Jason Goepfert of Sentimentrader.com is concerned by the poor relative strength of the 1) small caps, 2) Dow Transports, and 3) the Nasdaq Bank Index relative to the S&P 500.

We will always of conflicting opinions and now is no different. The recent momentum of the market is definitely a plus and the attainment of new highs signals that the bull market is intact. But now may not be a bad time to insure that our allocations are in line with our financial objectives.

China – As most of you know, back in late April, I added some exposure to China for many of my clients. The timing was not opportune, as the May sell-off extended to the China market and our fund suffered significant losses. However, since May 31st, our fund is up over 11%. So I am glad that I decided to hold onto the fund and my strategy now is to continue to hold it as long as it continues to do well.

Buying a Car? – If you are in the market for a new or used car, I recommend that you do what I just recently did – use a car buyer. This is a person who knows the car business and has connections with local car dealers so that he can get you the best price without having to negotiate. The person I used here in Rochester charged me $400 but I believe saved me a few thousand dollars, not to mention the value of the advice he gave. Please call me if you would like his contact information.

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