# 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 |
|---|---|---|---|---|---|---|---|
| 24,538 | 2,691 | 7,258 | 1,533 | 2.86% | 5.65% | $1,324 | $61.45 |

## *Investment Strategy Report*

### *Talk of Tariffs Gives Us Something Else to Worry About*

Just when we thought the markets were beginning to shrug off the early February "crash" and was recovering nicely, the President announced on Thursday that the US would begin charging tariffs of 10% on imported aluminum and 25% on imported steel. The Dow, which had been up as much as 155 points before the news was released, closed down 420 points for the day. In all fairness, we can't attribute all of the market weakness to this latest news, since stocks had encountered significant resistance earlier in the week.

After the Dow hit a recovery high of 25,709 last Monday, Feb. 26th, the index proceeded to lose 300 points on Tuesday and 380 points on Wed. Investors might have expected the indexes to give back some of the 10% gains they experienced from the market low on the morning of February 9th to last Monday's close, so this 2 day drop in stock prices was not totally unexpected. However, the reversal on Thursday caused by the talk on tariffs got investors spooked. After all, many attribute much of the carnage that occurred during the great depression to trade wars sparked by the introduction of tariffs. So, how bad (if indeed it will be bad) will this policy be for our investments?

During the last few days, every market pundit has offered his or her 2 cents on the topic. The general consensus is that free trade is good and protectionist policies are bad. If we institute tariffs, other countries will retaliate and the result will be negative for everyone. However, there are some who are saying, "wait a minute. Sure, free trade is best, but many of our trading partners have not been fair with the US". Many countries already have tariffs on US goods and the playing field has never been equal. They say that the President's latest move will help to gain a more equitable environment for US companies. The author of "The Art of the Deal" might be just trying to get a better deal for the US.

The good news thus far for stock market investors is that this past Friday saw a reversal of Thursday's reversal. The Dow, S&P 500, and Nasdaq erased early losses to rebound 1.3%, 1.7%, and 2.4% during the day from their early lows. So was the selling overdone? Have investors forgotten about how the new tax law will supercharge our economy and propel earnings higher? While this past month has been one of extraordinary volatility, we still need to remember that 1) the market is still in an uptrend and 2) we all knew that we were due for a pullback at some point. Here's what Jason Goepfert of Sentimentrader.com had to say in his Friday night's (3/2) comments:

"Most of what we've seen since the height of the panic is in line with historical norms, and while the selling pressure over the past three days has seemed troubling, it's still perfectly in line with the precedents we looked at on February 5 and February 6 as well as reports in the following week(s) suggesting months of choppiness, including a test of the panic low, before consistently higher prices over the medium-term. The past few days have been a little scary, but as noted above, such strings of 1% down days have had a good medium-term record at leading to positive returns, so I'm sticking with the idea that the short-term volatility we're seeing is a test and not likely a failure."

Louis Navellier also remains upbeat about the market's prospects. In his end the week message last week, he agrees with Jason that the market is just going through a re-test period. He feels that interest rate concerns have diminished in the past few weeks (the 10 year Treasury yield has drop from 2.95% to 2.86%) and that the Fed will issue a dovish statement when they meet later this month (even as they raise the Fed funds rate). This will lead to a strong rebound in the second half of the month. He also downplayed concerns about tariffs. While the market choppiness will probably be with us for a while, let's hope that Friday's rebound is a positive sign for the market. *Jeff Feldman*


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