Rochester Financial Services

Fee-Only® Financial Management Services

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	25,992	2,805	7,598	1,580	2.75%	6.00%	$1,286	$56.67

Investment Strategy Report

With Two Consecutive Months of Gains, Market Uptrend Is Back

The month of January basically erased the losses from December and now a positive month of February is adding to those gains, pointing stocks back in an upward direction. It appears that the bull market is back. Of course, whenever you get that warm, comfortable feeling of complacency, you probably know by now that the markets will try to surprise by doing something different. And after the best start in 28 years, US stocks are due at least for a pause. After all, back in the aforementioned 1991, after the stellar start to the year, stocks went sideways for 10 months before finishing the year with a final push higher. However, trying to time these moves is fruitless. As Jim Cramer said on CNBC this morning, those who sell now trying to time a move lower will most likely be buying back in later at higher prices.

Market forecasts for 2019 are barely 2 months old and already stock prices have surpassed the projected levels. As of Friday's close, the S&P 500 is up 12.2% for the year. But, like anything else, stock market returns are relative. While we are up nicely thus far this year, we are still about 4% below the record highs seen last September. Relative to the beginning of this year, we are doing great. Relative to last fall, we still have some catching up to do.

In his latest newsletter, Bob Brinker (BobBrinker.com 3/1/19) reminded me of a general pattern of stock market performance based on election year cycles. It is very common for stock market bottoms to occur in the second year of the election year cycle (2018 in our case), and for this bottom to serve as a springboard for stocks in the following year. "The history of stock market rallies that follow health-restoring mid-term election year corrections provides abundant evidence that the market has plenty of room for additional upside. Our minimum expectation is an advance of 30% from the December 24 bottom, which would take the S&P 500 index into the 3000-3100 range" he wrote. This analysis is similar to what I stressed in my last month's letter, that having a 20% stock market correction behind us has a very beneficial effect on the future outlook of stocks.

Many of my clients know that I have quoted many times Steve Sjuggerud of StansberryResearch.com. He has a great track record for forecasting market direction. I do admit that I did lose confidence in him last fall when he began to talk about the great stock market "melt up", in which he predicted that there would be panic buying of stocks before this epic bull market would end. Instead, we saw a melt down in stocks last quarter. You could say that he was wrong, or maybe that he was just early. In his defense, he does say that you need to have your "stop losses" in place, to limit your losses when you are wrong. But he now feels that the uptrend is back and that those who feel gun shy due to the losses incurred at the end of last year will miss out. Bull markets end with euphoric buying, something he feels we have yet to experience.

Economist Fritz Meyer is another one of my go-to guys when it comes to getting a realistic view on our economy and how that will affect the stock market. He feels that fears of an economic slowdown in the US are very much overblown. He projects earnings growth in the 5% range for 2019, giving us an earnings forecast for the S&P 500 of 170 for 2019. That gives us a current price/earnings ratio of a very reasonable 16.5. With continued growth of 5% and an increase in the p/e ratio to 17, we can easily end the year at an S&P 500 at 3,035. Fritz also pointed out in his webinar (2/12) something that reinforced what I've been saying for quite a while now: the part of Modern Portfolio Theory that stresses the benefits of global diversification is flawed. He states that foreign stocks have underperformed over the past 20 years, but are 95% correlated to the US market, i.e., they offer no benefits of diversification. He goes on to say that Europe has been a huge loser, with political challenges and a shrinking work force. The European Commission's February forecast for growth in 2019 is for 1.3%, down from a previous estimate of 1.9%. While there will always be periods when foreign stocks will outperform, there is no compelling reason to maintain a permanent allocation to them.

It's Tax Time – With the tax filing deadline approaching, I am here, as always, to help you with any tax questions that you may have. *Jeff Feldman*

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