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
26,912	2,936	8,048	1,673	3.15%	5.77%	$1,202	$76.06

Investment Strategy Report

Stocks Get Through Difficult Period With More Gains

It's human nature to think that what goes up, must come down, so as the stock market has continued to rise during this almost 10 year bull market, investors have come up with a myriad of reasons why the good times can't last forever. Back in May, they reasoned that the old adage, "Sell in May and Go Away" was reason enough to get defensive for this seasonally weak period for the market. When stocks continued to rise from May through July, the thinking then was that August and September are historically the weakest months of the year, so taking some money off the table before any potential sell-off made sense.

Well, stocks failed to falter during the past 2 months and have continued to make new all-time highs. We've made it through this potential stock market minefield and guess what? We are now in the most favorable of periods for the stock market. The period from Oct. 1st through next Sept. 30th is considered the third year of the presidential election cycle in stock market terms, and this one year period is far and away the most favorable one for stocks. So if we stick with seasonality and market technicals, now would be the time to throw caution to the wind and double down on stocks.

Of course, just as we couldn't rely on seasonality to predict weakness in the stock market, I am not prepared to rely on seasonality to let our defenses down and bet that stocks are guaranteed to move higher. While my guy Steve Sjuggerud has been saying for quite a while that before this bull market ends, we will experience a "melt-up" period in the stock market, even he would say that it is always advisable to invest cautiously and know that the market can always go against you.

As an example, I like to check with Jason Goepfert of Sentimentrader.com who tracks market sentiment and he has gotten substantially more conservative in the past few weeks. He cites a dramatic divergence between the number of stocks making 52 week lows at the same time that the major indexes are making new highs. Yesterday (10/2), the Dow closed at a new high while there were 3 times more securities on the NYSE making new lows vs. new highs. He also points out that while the Dow was hitting a new high yesterday, the Russell 2000 small cap index was hitting a 2 month low (Note: This was the reason that I sold most of our small cap stocks yesterday, as the small cap stocks which had been sheltered from trade concerns have seen those advantages evaporate as trade issues have been getting resolved). These issues are a cause for concern for him. He even discounts the benefit of the presidential cycle theory. He believes that much of those gains have already been pulled forward into the first 2 years of the cycle and therefore might not have the same benefit this time.

There are plenty of other warning signs out there that need to be recognized if not necessarily heeded right now. Jeff Gundlach of DoubleLine cautions that the US economy and stocks might be "burnt out", as having too much stimulus and therefore too much debt that can very easily get us into trouble. Charles Nenner of Nenner Research feels that all the good news has already been factored into the markets and that there is little upside left. And when the downturn does begin, we can drop back to 1999 levels! Goldman Sachs updated its proprietary Bull/Bear Index, which hit its highest level since 1969. This indicates that the chances of a bear market are now at multidecade highs.

These warning signs are not from perma-bears who have been consistently wrong but rather from astute market analysts with proven track records. However, we need to juxtapose these views with the strong fundamentals of the US economy. With extraordinary corporate profit growth and high consumer confidence, it appears that any day of reckoning should be at least 6 to 12 months off. Those analysts are most likely too early rather than wrong. Which is why I continue to remain nearly fully invested now, yet will not hesitate to heed any warnings should signs of weakness appear.

IRA Distributions – It is time to take care of your required IRA distributions for 2018. In the next few weeks, I will be contacting those who still need to make withdrawals before year end. *Jeff Feldman*

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