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
25,952	2,897	8,091	1,733	2.90%	5.77%	$1,198	$69.42

Investment Strategy Report

S&P 500 Joins Nasdaq At Record High Territory

It has taken 7 months for the broad stock market to stabilize and recover from the shellacking it took back in February. While the Nasdaq returned to record highs earlier this year, the S&P 500 had to wait until August 24th before it surpassed its January 26th high. The small cap Russell 2000 index has also surpassed its January record, leaving only the Dow Jones index needing to rise another 2.6% before it too can best its January high.

For those investors who abided by the stock market maxim of "Sell in May and Go Away", it has been a painful summer. The S&P 500 has risen 10% since April 30th. Strong earnings reports and a surging economy continue to push stocks higher. Yet it has not been easy to stay the course, as negative sentiment has continued to provide a very steep wall of worry among individuals. The concern last month was that August and September are typically difficult months for stocks, so raising cash might not be a bad strategy. After the S&P 500 rose 3.2% last month, the concern now is that September is historically the worst month of the year, so now is the right time to dial back exposure to stocks.

The problem with these attempts to time the market is that they are not based on any fundamental strategy. I listened to analyst Tony Dwyer this evening on CNBC talking about what might derail this stock market. He cited that typically a spike in inflation, followed by a spike in interest rates resulting in a deterioration in credit can lead to problems. However, he noted that there are currently no concerns about inflation, no stress in the credit markets, and no concern about growth slowing. Today's ISM Manufacturers Index hit a high for the current cycle. When this index peaks, he said, we usually don't get a recession for at least 34 months. Consumer confidence and small business confidence are also at highs. Without a recession any time soon, stocks should be fine.

He also addressed the question of whether slowing international growth can derail a robust US economy. His answer was that we faced a similar situation back in 1997-98, when an emerging markets crisis was not enough to end the surge in US stocks which continued higher for another 2 years.

Many of you might counter this bullishness by saying that after 9 ½ years of this bull market, with stocks hitting all time highs every day, that stocks must be expensive. But that is not the case. As Steve Sjuggerud points out (Stansberry Daily Wealth, 8/23), "The S&P 500 trades for a forward P/E of 17.5. That's dramatically lower than it was this time last year, thanks to a big boost in earnings from the tax cuts. More important, it's barely above the 25-year average".

While the views of these analysts carry a lot of weight with me, I think that it was more important to hear what Target CEO Brian Cornell had to say on Aug. 22nd. He said that this is the most optimistic consumer he has seen in his career in retailing. It's one thing to say that tax cuts are causing earnings to soar, as they have been doing this year. It's another thing to say that companies are doing well because consumers are on solid economic footing, which points to a strong economy that should support a robust stock market.

Foreign Investments – While the US stock market indexes have been reaching record highs, foreign stocks, both developed and emerging, have been going in the opposite direction. 2017 was a stellar year for international investments and this trend continued into January. This ended in February for both foreign and domestic stocks, but while the US has recovered, foreign stocks have done poorly. We exited any foreign positions we had back in the spring and as expected, this has served us well. Many of these foreign mutual funds are down 10% since then while the US funds I replaced them with are up about that much. *Jeff Feldman*

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