

# ***Rochester Financial Services***

*Fee-Only® Financial Management Services*

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February 5, 2020	Dow	S&P		Russell	10 yr	Earnings		Crude	
11:30 AM	Jones	500	NASDAQ	2000	Treas	Yield (S&P)	Gold	Oil	
	29,098	3,322	9,482	1,674	1.64%	5.42%	\$1,557	\$51.40	



## ***Investment Strategy Report***

### ***Corona Virus Continues to Spread and Stocks Hit All Time Highs? Yes, and Here's Why***

Here it is, Wednesday morning, Feb. 5<sup>th</sup>, the beginning of the third day of trading in what I am calling a thus far, remarkable week for the stock market. To see why this week is so special, let's back up to last Friday, 1/31. The Dow ended the month of January with a 600 point drop, wiping out all of its gains for the month, on concerns about the corona virus. Over this past weekend, the number of cases expanded dramatically, with more and more of China closing down to help stop the spread of the virus.

What made matters worse for stock investors (my apologies for reducing this tragedy to monetary concerns) was that there were already warning signs out there. Investment sentiment was and had been extremely bullish for many weeks. This contrarian indicator indicated that investors were overly complacent and that the market was moving higher solely based on momentum. And the ominous Hindenberg Omen, the very prescient indicator that I talked about the past 2 months, was again triggering. The market was ripe for any spark that could send it tumbling. With the corona virus spreading for several weeks at that point, I was upset with myself for not taking defensive action before Friday's big drop.

As we approached this week, we all were fearing the worst. After Friday's sell off and with no signs of any good news with the virus, who knew how much damage stocks would suffer with the start of the new month. However, instead of the market decline continuing on Monday, stocks rallied, with the Dow rising 140 points. The market rebound continued yesterday (Tuesday) with a surge of 410 points in the Dow. Friday's big drop had mostly been erased. What was going on? Despite all the fears and what many considered an overvalued market, something was pushing the market higher. Was it the trade deal with China? Was it the growing Federal Reserve balance sheet? Ben Levisohn, writing in Barron's (1/20) quoted Chris Harvey of Wells Fargo, saying "It feels like there is something unnatural happening now".

Levisohn postulates that it's 'low interest rates, muted inflation, and massive cash returns from US companies'. My theory – I'm calling this the Trump rally. Love him or hate him, it is no secret that the stock market has seen a tremendous rally since he was elected. And possibly more than Trump's positive effect on the market, I would say that the prospects of a far left Democrat being elected President would have a sizeable negative effect on the market. Therefore, any developments that enhance Trump's re-election chances will have a positive effect on the market; anything hurting his chances, a negative effect.

For example, when the US eliminated Iran's Soleimani, the markets didn't know what to expect, as critics feared that tensions would rise. But when Iran followed with only a muted response, it appeared that Trump's show of force was in the US's best interests, vindicating Trump's action. The markets rallied. When the Iowa caucuses ended in mass confusion Monday night, stocks rallied on Tuesday, with the Dow rising over 400 points. Why? Because the show of ineptness by the Democrats enhanced Trump's chances. The markets apparently liked Trump's State of the Union address last night, as the Dow is currently up about 300 points (11:30 am).

As I warned in last month's letter, "Get Ready For a Volatile 2020", and thus far, the markets haven't disappointed. The fundamentals of our economy still appear to be strong, as first quarter earnings reports are coming in better than expected. With little chance of a recession any time soon, we are still staying the course. However, when I mentioned last month that "it appears that the markets haven't cared *yet* about the elections", it looks like I once again have underestimated the investment gods. Prudent investors will have to keep an eye towards November when making their investment decisions this year.

**Radio Show Now Available** – The recording of my January 7<sup>th</sup> appearance on the Wharton Business School radio show is now posted on my website. You can go to [RochesterFinancial.com](http://RochesterFinancial.com) and scroll down to the link in red.

**Schwab 1099 Forms** – It appears that Schwab will be late in mailing out the 1099 forms, probably not sending them out until the second half of this month. *Jeff Feldman*

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