Rochester Financial Services

Fee-Only® Financial Management Services

Jeffrey Feldman Ph.D., CFP
Certified Financial Planner
Principal

January 2, 2020

Dow Jones	S&P 500	NASDAQ	Russell 2000	10 yr Treas	Earnings Yield (S&P)	Gold	Crude Oil
28,792	3,251	9,069	1,662	1.88%	5.48%	$1,529	$61.12

Investment Strategy Report

Stocks Have Best Year Since 2013. Get Ready For a Volatile 2020!

The stock market has been doing so well lately that it's scary. It is human nature to expect that what goes up, must come back down. And the more the market goes up, the more we think that it could go down. Of course, a year ago, when US stocks were priced 25% lower, it was also a scary time. We had just experienced an almost 20% decline in the fourth quarter of 2018, and our worst fears about the troubles in DC, the trade wars, and recession concerns rattled the markets.

So let's agree to agree on one thing: investing in stocks is always scary. The stock market doesn't care that you just retired, or that you have to put 3 kids through college, or that you are behind in your savings and can't afford to lose what you've saved. The good news is that it appears the stock market also doesn't care that our president has just been impeached, that the trade war with China continues on, that tensions with Iran are heating up, or that we will have a presidential election in 10 months (more on that last point in a minute). When you strive to achieve higher than guaranteed returns, you do so only with higher levels of risk.

I think that is was investing icon Benjamin Graham who said that the art of investing is not in the performance, but in controlling risk. And now, after we all have experienced such large gains, it is important to make sure that our portfolios are structured to achieve rates of return to ensure a comfortable retirement while exposing ourselves to a minimum of risk.

In last month's letter, I listed several concerns I had about the market. These were concerns that some of my trusted analysts had expressed. For many of my clients, I went ahead and reduced stock exposure by a significant amount. I thought that it would be better to reduce risk until things settled down. A week later, the markets had stabilized and began rising again. I therefore reinvested the cash I had raised. I don't consider this market timing, but rather prudent investing. I feel that it is important to be willing to forgo some upside return in order safeguard against large downside losses.

For those of you who think that we used up all the good economic news for last year's stock market advance, there are some new reasons to be optimistic for 2020. Back in the beginning of 2018, the talk then was about global synchronized growth, i.e., that for the first time in a while, foreign economies were joining the US in the economic recovery. That theme didn't last very long, as the foreign recoveries, for the most part, fizzled out. However, it now appears that we once again are seeing the international markets participating in economic growth. The recent weakness in the dollar has especially helped the emerging markets. We are also seeing the financials, which had been weak during the first part of 2019, coming on strong as of late, as the steepening of the yield curve (no longer inverted) has helped those companies. And the laggards of last year, the energy companies, have also rallied during the last few weeks, as they seem to be benefitting from the stable price of oil.

So if you pressed me on my forecast for this year, I would have to say (the same thing that everyone says every year), that gains approaching 10% for stocks is definitely doable. However, getting back to the aforementioned elections, it appears the markets haven't cared ***yet*** about them. At some point this year, as the markets factor in an anticipated result, the elections can definitely throw a wrench into the works and ratchet up volatility. Keeping our defenses up will be the theme for this year.

Radio Show Appearance on Tuesday (1/7) – This Tuesday I will be making another appearance on the Wharton Business School radio show with Professor Kent Smetters. The show should start around 5:15 pm EST on Sirius XM channel 132 (Business Radio).

Changes for 2020- For those born after 6/30/49, the good news is that you don't have to begin taking required IRA distributions until the year you turn 72 (as opposed to the previous 70 ½). The bad news is that if you inherit an IRA from a non-spouse (e.g. a parent), you will have to withdraw the entire amount from the account within 10 years (instead of over your life expectancy, as it used to be). For 401K contributions, you are now able to contribute $19,500 per year (or $26,000 for those 50 or over). Annual IRA contributions are still at $6,000 (and $7,000 for those 50 and over). *Jeff Feldman*

Tel: 585 / 442-7580
Fax: 585 / 351-2458
Email: jmfeld@aol.com

7 Hastings Circle, Pittsford, NY 14534
http://www.rochesterfinancial.com

Fee Only ™