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
25,827	3,130	10,208	1,432	0.67%	4.91%	$1,787	$40.32

Investment Strategy Report

Market Uptrend Continues Despite Spike in New Virus Cases. Nasdaq Hits Record High

To paraphrase Groucho Marx (who said "Who you're going to believe, me or your lying eyes?"), who are you going to believe, the thousands of new cases of Covid-19 being reported each day as the US begins to re-open, or the stock market. If you just have been paying attention to stock prices, you wouldn't know that unemployment is still over 11%, that thousands of companies are going bankrupt, and that there are a growing number of consumers defaulting on their loans.

A week ago, during the weekend of June 27-28, I was very concerned about the prospects for the stock market. The S&P 500 had just fallen 2.4% the previous Friday, 6/26, and news over the weekend (6/27 and 6/28) was not good, as attempts across the country to re-open were not going well. My concern was that the stock market was overly optimistic about the opening of the economy, and that the reality of the severity of the pandemic would shock stocks back down to lower levels.

So what has ensued since then? During the 4 trading days this past week, stocks rose every day with the S&P 500 and Nasdaq rising 4.0% and 4.6% for the week. The market's "flagrant" disregard for the crisis might have gotten some justification on Thursday when the June jobs report showed that 4.8 million jobs were added in June, vs. the 2.5 million that were expected. The unemployment rate, once feared to hit 20%, had dropped from 13.3% to 11.1%. However, the number of new virus cases continues to climb, with new daily infections surpassing 50,000 this past week. In no way has the all clear signal been sounded for the stock market.

As I have written about several times over the past months, the general consensus among most analysts that I follow is that while we should continue to have a volatile stock market over the short term (the next few months), over the longer term, stock prices should be higher than current levels. Since hitting an interim peak on June 8th, the S&P 500 has cycled up and down, finding support at its 200 day moving average (around 3,020). Only the Nasdaq has managed to surpass its June 8th high to reach a record level, as growth companies continue to lead the market (and our growth mutual funds continue to outperform).

Analyst Tony Dwyer made an important point on CNBC (6/24) about why the stock market will continue to move higher: uncertainty has been removed. When stocks were hitting all time highs back in February, the corona virus represented an unknown threat. Now 5 months later, we know 1) the physical threat that we are facing, 2) the government monetary response that has been put forth, and 3) the potential medical treatments that are being developed. The latter treatments, along with the unprecedented trillions of dollars being allocated to support that economy, will help prop up the stock market.

Scott Garliss and Chris Igou of Stansberry Research (6/26 and 7/2) address the fear factor and its effect on stock prices. When investors are fearful, like I was last weekend, that is bullish for stocks. Scott reported that investors are currently shorting stocks (i.e., betting that they will fall) to the largest extent since 2011. He goes on to say that a recent survey from the American Association of Individual Investors (AAII) reported that 48.9% of respondents were bearish, well above the historical average of 30.5%. Chris discussed the stock market fear "gauge", known as the VIX. It went from levels below 15 in February to a high of 80 at the height of the market collapse in March. It has since fallen back down to about 30. "Historically, when the VIX falls back from record highs, it's a good sign for US stocks". When the VIX has fallen from elevated levels to below 35, "buying leads to outperformance, with winning trades 82% of the time over the next year".

I understand that investing during such volatile times is difficult and risk is high, which is why I have adopted a somewhat more cautious allocation for many of my clients. Hopefully this will allow us to stay the course for the longer term, to reap the benefits of what should be a continuing stock market recovery.

Waiver of RMD's – I have mentioned previously (in April and May) that there are no required IRA distributions for this year. However, the IRS is now saying that if you have already made withdrawals from your IRA accounts and want to transfer that money back in, you have until August 31st to do that. Please contact me if you think that you might be interested in this.
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