Rochester Financial Services

Fee-Only® Financial Management Services

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Sunday

Dow Jones	S&P 500	NASDAQ	Russell 2000	10 yr Treas	Earnings Yield (S&P)	Gold	Crude Oil
25,864	2,972	8,576	1,449	0.71%	5.89%	$1,674	$41.57

Investment Strategy Report

Corona Virus Fears Finally Cause Stocks to Plummet. Here's My Plan

To paraphrase Joe Biden, what a difference a month makes. It was only a few weeks ago that stocks were sitting at all time highs. The stock market had shrugged off concerns of the spreading corona virus and had instead focused on the robust economy. That all changed the week of Feb. 24th. That Monday the Dow dropped 1,032 points. The Dow continued to fall, with point drops of 880, 124, 1190, and 357 for the next four days of the week. This weekly drop of 12.4% was the biggest weekly decline since the depths of the 2008 financial crisis, Oct. 6-10 2008, when the Dow dropped about 20%.

That Friday night, 2/28, I sent out an email to you stating basically that I thought the selling was overdone. Regardless of what is going on in the world, stocks have a tendency to get stretched to one side, and then bounce back to the other. Just as stocks had gotten stretched to the upside, they were now stretched to the downside. Using the October 2008 week as an example, I pointed out that the Monday following that disastrous week was followed by a Monday rebound of 11.6%. This occurred despite the fact that we were still in the midst of a financial meltdown and a bear market, which didn't bottom for another 5 months.

Well, this past Monday did indeed see a strong rebound from the previous week's selloff. The Dow experienced its biggest point gain ever of 1,294 points. While Tuesday saw a drop of 786 points, the rebound continued on Wed. with another plus 1,000 point gain of 1,173 points. The recovery fizzled out on Thursday and Friday with losses of 969 and 256 points. It is possible that the stock market needed to retest the lows of Friday 2/28 before continuing its recovery. But stocks showed that despite growing global concerns, they can bounce back, and strongly at that.

During times like these, my number one go-to resource is Sentimentrader.com with Jason Goepfert and Troy Bombardia. Their research is purely technical. They focus on investor sentiment and also look at previous price patterns similar to our current ones, and attempt to use this historical data to forecast most likely future outcomes. For example, they analyze the extremes in 1) market volatility, 2) market breadth (number of stocks declining), and 3) investor sentiment (investor panic). Based on their analysis, in this weekend's letter they came to the following conclusion: "Based on these measures and others we've looked at over the past week or so, we're seeing a historic level of volatility, wholesale selling pressure, and panicky behavior.". "…readings like we're seeing had an extremely high probability of preceding a multi-month rebound". They didn't say that we are not headed for a bear market, but only what they expect to see over the next few months.

I also take great comfort in the reassurances of Louis Navellier, who released a podcast this past Friday (3/6). He is very bullish right now, citing the ultra low interest rates as a strong reason to buy stocks. With the earnings yield of the S&P 500 at 5.89% (even with downwards earnings revisions), and a dividend yield of about 2%, it's hard not to like stocks when the yield on the 10 year Treasury is at 0.71%. At some point, money will have to flow from low yielding bonds to higher yielding stocks. He feels that last week's end of the week selling came on lighter volume and will soon exhaust itself. He adds that the Fed is now being accommodative, with its 50 basis point cut last week and another likely 50 basis point cut coming next week. The choppiness might continue for a while, but stocks should stabilize by the second half of this month.

And lastly Steve Sjuggerud of Stansberry Research still feels that we will experience a market melt-up before this bull market ends. He wrote on Friday (3/6) "Today, stocks are incredibly hated … and you want to buy assets when they're hated. Investors have lost faith. Meanwhile, the economy (to this point) is doing well, interest rates are at record lows, and stocks are not expensive. In my opinion, this will turn out to be the last great buying opportunity of the Melt Up."

So my plan is to hold to our positions for now, as hard as it might be. I do feel that stock prices will be higher 3 months and 6 months from now. However, if any of you feel that you have more exposure to stocks than you are comfortable with, than we can definitely reduce your exposure until the markets stabilize. Please don't hesitate to call me to review your investments.
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