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
23,665	2,848	8,854	1,263	0.71%	6.25%	$1,692	$24.13

Investment Strategy Report

Stock Market and Economy Go In Opposite Directions

As investors have seen their portfolios grow over the past 11 years, their biggest fear has always been that a repeat of the 2008-2009 bear market would occur, when the S&P 500 lost 55% of its value. Back then, liquidity in financial markets dried up and unemployment hit 10%. However, with help from the Federal Reserve and the government, we got through it and life returned to normal.

We can make the argument that the current pandemic is much worse than what we faced during the great recession. Instead, comparisons are now being made to the great depression, when unemployment hit 25%. Whole industries are now being forced to close down. The travel and leisure industry has been decimated. Energy companies are having it just as bad, having to deal with the price of oil dropping to *minus $39 a barrel* on April 20th, before recovering, as the slowing global economy has sharply curtailed demand. The slowing economy has also hit financial institutions, as borrowers are having and will continue to have difficulty repaying loans. This morning's ADP private payrolls report indicated that 20 million jobs were lost last month. It is anticipated that this Friday's non-farm payroll report might show an unemployment rate approaching 20%! And of course, I haven't even mentioned the horrific human toll suffered during this pandemic, with the death toll now exceeding 60,000.

So how is it possible that for the month of April, the stock market experienced its biggest one month gain since 1987? That, of course, is the most common question I get from clients, as we struggle to determine what is an appropriate asset allocation during such volatile times. The answer I give my clients consists of 2 parts: 1) The amount of stimulus provided to combat this economic tsunami is unprecedented. Congress has already approved almost $3 trillion to help those affected by this crisis and the Federal Reserve has the ability to loan close to twice that amount. All this money that is flooding the system is helping to prop up all financial assets, equities and fixed income instruments. And 2), the stock market looks ahead. We all know how bad things are now. But the general consensus is that in 6 months to a year, things will get better. We are seeing this already in China. They have now experienced 3 straight weeks of no Covid-19 deaths, and their economy is beginning to return to normal. Even if it takes us a few months longer, it does appear we can return to some sense of normalcy. If earnings in 2021 can return to their 2019 levels, then some time in the next few months, the stock market can begin to approach the highs of earlier this year.

Keep in mind, though, that this analysis is overly simplistic. It is doubtful that in the near future, airline traffic will begin to pick up, people will begin to eat out in restaurants, take cruises, or go to movie theaters. Life will change just like life changed for us after 9/11. There are also many unknown variables involved, such as the development of therapeutics and vaccines. So just like I have an explanation for why stocks went up so much in April, I can easily come up with an explanation of why stocks can fall substantially from here. Uncertainty is very high and we need to be very careful.

That is why I it is so difficult to determine how to position our portfolios during this time. As I mentioned in one of my emails to you, the best approach is to adopt a conservative portfolio and not try to outguess the market. The short term fluctuations will be impossible to time, but longer term, we should be OK. After the gains we experienced last month, the market is due for a pause. After all, a 20% unemployment rate is hard to ignore, even if we "know" that things will begin to get better soon. A positive note from Jason Goepfert of Sentimentrader (5/1) is that based on the buying surge that we have experienced since late March, the odds are that this is a legitimate bull market beginning, rather than a bear market rally. However, he offers no guarantees and feels that all bets are off if the market begins to lose its footing.

IRAs and Zoom Meetings – I want to repeat what I mentioned last month, that IRA distributions are not required for 2020. Some of you have automatic withdrawals occurring, so you will need to contact the custodian to stop them if you don't need the money. Also, since most of us are still in lock down, I am not having clients come to my office. However, we can definitely do Zoom meetings if that is something that you would like to do. *Jeff Feldman*

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