Rochester Financial Services

Fee-Only® Financial Management Services

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December 5, 2020

Dow Jones	S&P 500	NASDAQ	Russell 2000	10 yr Treas	Earnings Yield (S&P)	Gold	Crude Oil
30,218	3,699	12,464	1,842	0.97%	4.46%	$1,842	$46.09

Investment Strategy Report

Post-Election Rally Leads To A Return to All Time Highs

For the first time in over 2 years, I am writing to you with all 4 major indices at record highs. The Dow, S&P 500, Nasdaq, and small cap Rusell 2000 index all closed yesterday at historic highs, as the post-election rally continues into December. The S&P 500 finished November up 11.8%, its best monthly performance since 1987 and its best November in history. If I had asked 100 stock market analysts on October 31st, 3 days before the election, to predict where the markets would be in 5 weeks, how many would have foreseen this stock market tsunami to the upside? So much for the experts.

As it turned out, the stock market apparently liked the outcome of this year's tumultuous election season. With a Democrat as president, and likely Republican control of the Senate, divided government might be just what the markets wanted. Or as I wrote in last month's letter, maybe the markets just didn't care. Whatever the case, investing in 2020 has turned out to be a pretty scary proposition. And now, with the latest surge in covid cases, a mounting death toll, renewed calls for lockdowns, and stocks at all time highs, what is an investor to do.

As I often say, the best predictor of market direction is the stock market itself. And the strong recent momentum portends of more upside to come. However, not only did stocks in general do well last month, but we got participation from all sectors of the market, with a whiff of possibly the long awaited rotation to value. As most of you know, certain sectors of the economy have gotten hit much harder than others during this pandemic. Anything to do with travel and leisure, restaurants, airlines, cruise lines, etc. have gotten decimated. In addition, financials, with their exposure to commercial loans, and energy companies, hurting from low energy demand, have suffered.

In contrast, tech companies in general have flourished, and any company participating in remote technology has exploded due to outsized demand. This bifurcated market has been the story of 2020, at least until last month, when positive news about successful vaccine trials has spurred confidence in a return to normalcy in 2021. We saw extreme turnarounds in November, in which the losers of 2020 reversed and turned higher. It was not unusual to see stocks of airlines, cruise liners, and energy companies jump 30 to 60% last month. And the Russell 2000 index, which is comprised mostly of small US companies, which have been hardest hit by the pandemic, soared 18.4%, its best month ever! Value investor Joel Greenblatt stated that over the past 5 years, growth has beaten value by an average of 11% per year, 16% per year over the past 3 years, and 33% for 2020 through 10/31. If the coin flips going forward, some beaten down areas of the market can experience huge gains. While we have seen false breakouts in the past, it will be one of my major objectives in 2021 to determine whether a change in market leadership is occurring, and if so, to adopt our portfolios to these changes.

With the market now experiencing broad participation from all sectors of the economy, a continuation of the uptrend seems to be the most likely outcome. Of course, no one would fault the market for taking a breather now, or even pulling back some after such a historic run. Jason Goepfert of Sentimentrader.com (11/30), in discussing how optimistic investors have become, stated that "We haven't seen extremes like this in 15 years", which from a contrarian standpoint, should point to at least some short term weakness. However, he concedes that "Considering recent history, it has usually been a mistake to sell just because sentiment is overly optimistic, which it clearly is". He goes on to say (12/2) that stock market gains of more than 40%, like this year's epic 8 month rally, "almost always led to more gains for the S&P 500 over the next month and next year".

And from a fundamental viewpoint, stock market doubters should note that corporate earnings have held up surprisingly well despite the widespread lockdowns. The vaccine rollout during the next few months should boost confidence and unleash pent-up consumer demand. Bob Brinker (BobBrinker.com) expects 3-4% GDP growth and operating earnings of at least $165 for the S&P 500 in 2021, expanding to earnings of $180 plus in 2022. "In a low interest rate economy, a P/E ratio of 21 provides the potential for the S&P 500 to trade into the 3800s range. *Jeff Feldman*

Best Wishes For a Safe and Happy Holiday Season, and a Much Happier 2021.

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