

Rochester Financial Services

Fee-Only Financial Management Services*

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

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Dow Jones	S&P 500	NASDAQ	Russell 2000	10 yr Treas	Earnings Yield (S&P)	Gold	Crude Oil
27,683	3,348	11,075	1,539	0.70%	4.76%	\$1,908	\$37.06



Investment Strategy Report

Long Awaited Pull Back Hits Markets in September. Countdown To The Election Continues

For those of you who couldn't understand why the stock market could do so well while our country and economy were in the midst of a pandemic, you got your answer last month. After hitting an all time on Sept. 2nd (when I wrote last month's letter), the markets nose-dived in the following 3 sessions, losing 10% for the Nasdaq and 7% for the S&P 500. Markets don't go up in a straight line and they will correct when you least expect it. In my defense, I did warn that the market was "severely overbought" and that we needed to exercise caution in the short term. Of course, timing is everything, and being able to exactly time these short term downdrafts is impossible.

The markets were able to stabilize at some point, and managed to mount a rally of 4.5% to 6.5% at the month's end (today's Trump-catching-Covid pull back not included). So while the uptrend might be resuming, the markets are making sure that no one gets too complacent. The market's rally of 5 of the last 6 days ended today when we learned that the President contracted the virus. And the weaker than expected jobs report didn't help either. There were some hopes today that some sort of stimulus package would be passed, as Speaker Pelosi asked the airlines to hold off on layoffs. But uncertainty is still riding high and will continue to for at least another month.

And with this high level of uncertainty comes investor fear. Greg Diamond writes in Stansberry Research (Ten Stock Trader, 9/28) about his mother who asked him "I'm retiring soon, should I cash out of everything? Half of everything. Stocks are at record highs and I'm concerned about the election". I'm sure that many of you can relate to this. Greg continued "there hasn't been this type of bearishness since 2008! This is not the environment consistent with major tops!" He then adds that "the Federal Reserve continues to pump liquidity into the markets. The market has never seen this type of intervention". And as for help from Congress, he feels that "regardless of who wins, we will get some type of fiscal stimulus measures passed. It will be a priority. Uncertainty will begin to fade. Given positioning, sentiment, and the Fed, this market is like a NASA rocket full of the best fuel ever created just waiting for a spark to light its ignition to explode higher".

How's that for optimism in the middle of a pandemic! Jim Cramer (CNBC 9/29 and 10/1), while not that optimistic, still advises to stay the course. He rationalizes about the market's uptrend by saying that "some parts of the economy are doing extraordinarily well (mostly larger companies). Other parts are not doing well (small companies for the most part are getting crushed)." "The boom in certain industries will blot out the damage done to those areas that are most fragile".

This battle between the haves and the have not businesses seems to be resulting in a net positive, as 3rd quarter corporate earnings reports should show a continuing improving economy. Louis Navellier expects a 30% increase in 3rd quarter GDP growth. He feels that as long as we don't get a contested election, stocks should do fine.

I don't think that the president contracting Covid will be the last surprise in this election season. I am hoping for some positive surprises, like a sooner than expected vaccine or a therapeutic. In today's environment, there is plenty for investors to be fearful of. But we shouldn't let those fears prevent us from adopting a prudent investment strategy.

IRA Withdrawals or Roth Conversions – As you all should know by now, there are no required IRA distributions for 2020. However, it might make sense for some of you to withdraw money from your IRA (or do a Roth conversion) to avoid being in a "negative tax" situation. This occurs when your taxable income minus your standard deduction (\$27,400 if married over 65 or \$14,050 for single over 65) is less than \$0. If you think that you might be in this situation, feel free to contact me to see if we can do some tax planning before the end of the year *Jeff Feldman*

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

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

