Rochester Financial Services

Fee-Only® Financial Management Services

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December 2, 2019 1:30 pm	Dow Jones	S&P 500	NASDAQ	Russell 2000	10 yr Treas	Earnings Yield (S&P)	Gold	Crude Oil
	27,847	3,115	8,551	1,610	1.84%	5.71%	$1,469	$55.90

Investment Strategy Report

Stocks Continue to Climb. Are They Due For a Pull Back?

A month ago I was writing about the mysterious phenomenon of the stock market reaching record highs amidst all of the adversity out there. Despite impeachment proceedings, the trade war with China, and slowing economic growth, stock prices continued to rise. Here we are now, 4 weeks later, and the stock market has continued to show strength, with prices about 2-3% higher in the past month with few signs of any volatility. As a matter of fact, except for today, where the averages are starting off the month of December with a relatively large drop, it has been 2 months, since early October, that we have seen as much as a 1% drop in the averages.

A month ago, the correct decision was to stay with stocks despite the high prices and uncertain environment. Is that still the correct decision today? Well, the short answer (to the long term view) is yes. The bull market is still intact, and stocks should continue to move higher in 2020. There are many reasons to be bullish on stocks.

Professor Jeremy Siegel of the Wharton School was interviewed on CNBC last Wed. He stated that Dow 30,000 can easily be reached at some time in the next few months if we get that phase I trade deal with China and if the Mexico/Canada USMCA trade deal is signed. He also mentioned that he is becoming more optimistic that there will be no recession in Europe now that the German economy is doing better. A stronger European economy will benefit the US economy. He added that US jobless claims continue to remain low and that signs of weakness in our economy as of a month ago are no longer present.

The stock market is also looking healthier, as we are now seeing broader participation in this rally. While growth had been the leader earlier this year and for many years previously, we are now seeing value stocks, financials, and health care joining the advance. Housing is having an incredible year. We have just experienced 3 consecutive months of greater than 700,000 new homes sold per month. And "the consumer is crushing it" to quote Josh Brown of the CNBC halftime report. He added that companies like Burlington and Best Buy are hitting new highs. He stated that although we have seen low ISM manufacturing numbers, that is not a recession indicator, as manufacturing represents such a small part of our economy. The Philly Fed non-manufacturing index is up 20.7% vs up 12.7% a year ago. With consumers as strong as they are, the consensus is that we are not going into a recession.

Other signs of a recession, such as rising interest rates on lower quality credit, have not been observed. And there are no liquidity concerns, a problem that has occurred during past recessions. With the Fed cutting rates 3 times this year and now purchasing $60 billion of Treasurys per month, there is plenty of liquidity in the system.

So while my long term view remains bullish, what do I see for the short term? While we all will probably admit that short term market timing is difficult (at best), there are a few concerns that I have. Jason Goepfert of Sentimentrader.com is the best in the business when it comes to market sentiment and market technicals. And for about a month now, he has been warning that he has detected 2 ominous occurrences in the markets, called the Hindenburg Omen and the Titanic Syndrome (you can't get much scarier than that!). When these indicators trigger, it indicates that there is split market, i.e., certain sectors of the market are hitting new highs while other sectors are hitting new lows. Although these indicators are not perfect, they did trigger last fall before the indices crashed in the fourth quarter.

In addition, Steve Sjuggerud of StansberryResearch.com pointed out (11/27) that the latest Commitment of Traders report is showing that traders are placing record bets on continued low volatility (or higher stock prices). This a good contrarian tool, since whenever everyone is on one side of a trade, there is a good chance that the opposite result will occur. So short term, we might be in store for some correction in stock prices. And after such a strong year thus far, I might decide to pare back temporarily. But if I do decide to do this, I fully expect to put this cash back to work soon.

Thank You! – again to all of you for continuing to place your trust in me. I do truly appreciate it. And Best Wishes For A Happy Holiday Season And A Happy And Healthy New Year. *Jeff Feldman*

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