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
22,686	2,448	6,464	1,331	2.55%	6.94%	$1,296	$46.83

Investment Strategy Report

The Fed Exacerbates Market Decline at December Meeting. Apple Disappoints.

By the middle of last month, stocks had just entered correction territory. The Dow had dropped 3,150 points from its high on Oct. 3rd to its Dec. 18th level of 23,675, an 11.5% drop. Investors were waiting for any piece of good news from the Fed the following day, Wed. 12/19, to allay their fears and to put an end to the correction. Anticipating the good news, the Dow rallied that Wed., gaining 380 points by the 2 pm announcement time. However, the Fed's announcement shocked investors. Chairman Powell not only raised the Fed Funds rate but stated that he planned to raise rates twice more in 2019. This aggressive posture caused the Dow to reverse course and finish the day down 350 points, a 730 point reversal. The Dow continue dropping another 1,530 points the next 3 days. Total damage done by the Fed - almost 10%.

The markets bottomed out on Christmas eve and then sported a post-Christmas rally, possibly realizing that with interest rates so low (the 10 year Treasury is now at 2.55%), there is no way that the Fed can do any more damage in 2019 by raising rates. The markets have held firm since then, until today, when Apple reported a surprise cut in sales forecast. The stock dropped 10% and the Dow dropped 660 points, not a good start to the new year. After a horrible December, the prospect of more losses in January is spooking investors. I'm sure that many of you are beginning to think that you want nothing to do with stocks right now. Just sell everything.

Steve Sjuggerud (StansberryResearch.com) thinks that would be a mistake. In his latest letter just out tonight, he says that "This week, I made my biggest commitment to stocks – ever. I invested more in stocks this week than I ever have before". He is comparing this moment to that of the market bottom of 2009, when everyone was "scared as hell". As one friend told him last week, "Trump, the trade wars, market gyrations … I'm getting OUT". Steve believes that the best time to invest is when everyone else wants out. He feels that the December 26th reversal, when the Dow began the day down 80 points only to end the day up 1086 points was the market bottom. He also feels that the market action the next day, when the market again reversed, from a 600 point decline to end the day up 260 points, was a confirmation for him.

Economist Fritz Meyer looks at all the troubles we're facing - the trade war, global slowing, government shutdown, etc. and instead sees a Goldilocks economy. "We have a strong labor market, economic activity is still strong, household spending is strong, all with inflation of less than 2%." "The Wall St. Journal survey of 60 economists sees 2.3% GDP growth this year. The Index of Leading Economic Indicators spiked higher in November and personal income growth is up strongly." With the S&P 500 earnings projected to be 170 this year, a very conservative P/E ratio of 16 would put the index at 2720, 11% higher from here. The negativity is certainly weighing on the market, but any positive development, such as Fed Chairman Powell softening his stance at a conference tomorrow, could spark a market rally.

2018 Review – 2018 was not a good year mostly because the gains accrued during the first 11 months of the year were wiped out in December and then some. Last month was the worst December for the stock market since 1931. The S&P 500 fell about 9%, so your monthly reports do not look good. However, for the year, our portfolios dropped about 2% on average, with some less and some more (those who started with me mid year, saw larger losses because they didn't benefit during the earlier months). This compares with the 2018 return of the US total stock market of minus 5.4% and the return of the international markets, both emerging and developed, which each lost about 14% last year. Eliminating those funds from our portfolios back in the spring definitely helped us out. So did the sale of the Schwab small cap funds on October 2nd, since the fund dropped 20% from that point to the end of the year (I am still waiting for an opportunity to reinvest that cash). Our performance was also helped by our largest managed fund which was actually up 0.6% last year, and by our growth funds which beat the averages, dropping on average about 2%. And our bond funds were up an average of 1% last year compared to the Vanguard Total Bond Market fund which lost 0.1%. While last year's results were not pretty, I do feel good that we avoided many minefields (it could have been worse). *Jeff Feldman*

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