

Rochester Financial Services

Fee-Only® Financial Management Services

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3 pm

Dow Jones	S&P 500	NASDAQ	Russell 2000	10 yr Treas	Earnings Yield (S&P)	Crude Oil	Gold
25,854	2,871	7,888	1,567	2.46%	5.93%	\$1,287	\$61.73



Investment Strategy Report

China Trade Impasse Creates Roadblock For Market Advance

On April 23rd, the S&P 500 closed above its previous record high of 2,931, set back last Sept. 20th. Hence, the market has been able to erase all the losses sustained during the calamitous 4th quarter of 2018. Stocks continued to trade at new record high levels through May 3rd, when another strong employment report kept prices at record levels. With strong job growth and the unemployment level falling to 3.6%, a 50 year low, it seemed like nothing could hold back this bull market. With the probability of recession now even lower, why would stocks do anything other than continue to rise?

The strong April jobs report was not enough to prevent the stock market from experiencing one of its worst weeks of the year during the next 5 trading sessions. The problem began on Sat. night, May 4th when President Trump tweeted that the Chinese were not complying with trade agreements and promised to raise tariffs to 25% on a new set of items. This tussle with China has caused the S&P 500 to lose about 2.2% this week. Whereas a week ago investors were expecting stocks to begin a new advance to all time highs, it now seems like we are back in a trading range, waiting for a resolution to the trade issues that now might take months, if ever, to resolve.

So where do we go from here? Will this battle between the US and China be enough to keep stocks in check, if not send them lower? This past Wed. night (5/8), CNBC's Jim Cramer said that investors need to block out the noise of the China trade dispute. Instead, concentrate on the low interest rates and solid earnings reports and be prepared to put cash to work if the market falls.

Whenever we see a sell-off in the stock market, investors (I guess that I might fall into this category) have a tendency to fear the worst. Instead of concentrating on the strong economic data, we instead remember the warnings of the stock market bears who are expecting the worst. Just this past week, bond guru Jeff Gundlach, who because of his fixed income prowess has earned respect for his equity forecasts, stated that he felt that we are in a bear market, despite the recent record highs.

However, we shouldn't forget that the 1st quarter GDP came in at a pretty amazing 3.2% with no signs of inflation. Yes, the 1st quarter, which for seasonality reasons has the in past been the weakest quarter of the year. The housing market is robust with strong home buying demand. The consumer is healthy and consumer sentiment is at high levels. And good wage growth, in tandem with the strong labor market, is helping to spur the consumer to drive the economy.

After a 25% rebound from the late December lows, stocks are due for a pull-back. They don't run up in straight lines. And there is a tendency to blame the retreat on the latest news headlines, in this case the trade issues. However, if we ignore the noise and concentrate instead on the strong fundamentals, we should soon see a resumption of the uptrend.

Getting in to China – Speaking of China, you might have noticed that for many of you, I added a small position of a China mutual fund to our portfolios. Why would I invest in such a seemingly risky market, especially now with the ongoing US-China trade dispute? Because the upside potential here is tremendous. Basically, 1) China is growing at twice the rate of the US, 2) their stock market has gone nowhere the last 5 years compared to our tremendous gains, 3) when their stock market does get going (it is up 20% thus far this year), gains of 100 to 500% are not uncommon, and 4) hundreds of billions of dollars will be flowing into Chinese stocks in the next few years as they are included in global emerging market indexes. While future gains might have to wait for a resolution of the trade war, the rewards can be worth the wait.

Thank you – to those of you who have offered me condolences on the passing of my mom. She passed away last week at the age of 90. She lived a full life and was very fortunate to have a great family with many children, grandchildren and great grandchildren. *Jeff Feldman*

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