

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
27,463	3,078	8,433	1,597	1.79%	5.69%	\$1,510	\$56.55



Investment Strategy Report

Stocks Hit Record Levels As Earnings, the Fed, and Trump Push Prices Higher

For some unexplained reason, the Dow, Nasdaq, and S&P 500 all closed today at all time record highs. At least that is the sentiment that most of my clients and other individuals have expressed to me when they observe stocks continuing to climb higher. After all, how can stock prices continue to go up given that we are in the middle of a trade war with China and very likely soon to be in the middle of a presidential impeachment. Not to mention that we just got through a seasonality minefield, the months of September and October which have a history of being very unfriendly to stocks.

Part of the reason for the stock market advance can be explained by the very fact that no one believes that this bull market can continue. From a technical perspective, with negative sentiment so high, the bull market continues to climb the wall of worry. Investors are positioned very defensively. Thus far in 2019, US stock funds have experienced \$100 billion of outflows. At the same time, more than \$350 billion have been added to bonds and \$400 billion into cash. There is still plenty of cash on the sidelines that can help propel prices higher on any positive developments. As I have often explained, this is the contrarian nature of the market.

However, there definitely are fundamentals reasons that can explain the market action. As we near the end of the 3rd quarter reporting season, 70% of companies thus far reporting have beaten expectations on earnings and 60% have beaten on sales. That is an indication of strong corporate earnings. And not only are US companies doing well. It appears that the international economic slowdown is beginning to abate, as these economies try to turn the corner. If we can once again have global synchronized growth, something that we haven't seen in 2 years, that would be very bullish for stocks.

We also saw continued strength last week in the job market, as the October jobs report released last Friday was stronger than expected. Historically, recessions have been preceded by rising unemployment rates. With job growth continuing to be strong, the employment indicator points to no recession.

Another positive development for stocks last week was the Federal Reserve's decision to cut interest rates. This cut marks the third interest rate cut for the Fed since June. While the Fed might not be as accommodative as investors would like, they do seem to be cooperating. This cut was enough to keep the rally going. The Fed has now joined central banks around the world in a coordinated effort to cut interest rates and stimulate the global economy.

Just as they say, "Don't Fight the Fed", we soon might coin a new phrase, "Don't Fight the Trump". The president has made it clear that he feels that the stock market is to some extent, an indicator of how good a job he is doing, and will therefore do whatever he can to prop it up. As an example, we have seen in the past few months occasions when the stock market was in a funk, and he would come out with news about a positive development in trade talks with China. The announcement of a deal on a phase 1 trade agreement with China is both helping him and the markets. As the impeachment inquiry heats up, we can expect him to continue to report good news to try to negate his negative political news. This should be good for the stock market.

At this point, stocks are probably overbought and due for a pause. Whenever I sense that stocks can only go higher, I know that investors are becoming too complacent and we need to get knocked down back to reality. However, it does appear that at some point, the stars might be aligning, setting us up for a year end Santa Claus rally. We were denied last year. Maybe we won't be disappointed this year.

Required Minimum Distributions (RMDs) – I have now contacted all of you who are required to make IRA distributions before the end of the year. Please take care of this as soon as you can or call me if you need my help. *Jeff Feldman*

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