

Rochester Financial Services

Fee-Only* Financial Management Services

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Dow Jones	S&P 500	NASDAQ	Russell 2000	10 yr Treas	Bitcoin	Gold	Crude Oil
36,338	4,766	15,645	2,245	1.51%	47,026	\$1,831	\$75.45



Investment Strategy Report

Market Uptrend Should Continue Into the New Year ... At Least For Now

It's hard to believe that with new Covid cases surging to record highs, and with inflation now at its highest point in 40 years, that the stock market was able to finish 2021 with another year of records gains. And if the consensus opinion of my analysts is correct, this market uptrend should continue into the early part of 2022. But then, things can get dicey.

I don't know how many times I have mentioned that the stock market climbs a wall of worry. And we all know that there are plenty of things to worry about. Who would have thought that now, almost 2 years into this pandemic and 1 year after the arrival of vaccines, we would be hitting record high daily Covid infections. We were supposed to be done with the pandemic by now. But this latest Omicron variant seems to be extremely contagious, albeit less severe than the Delta variant. Schools, businesses, and government officials are back again debating about whether to close down, or to continue operating with restrictions.

And inflation, the bane of most stock bull markets, is now at levels not seen since the early 1980's. With the trillions of stimulus money poured into the economy, and a most accommodative Federal Reserve, demand is outstripping supply, causing prices to surge. Investors have to ask themselves, how much more abuse can this stock market take? Surely, after 3 banner years, stocks cannot continue to climb higher in 2022. And yet, that is what most of the analysts I follow are saying.

Tom Lee of Fundstrat believes in the sustainability of this rally. Tom has gotten the reputation the past 2 years for being one of the top stock market analysts in the country, with his extremely accurate stock market forecasts. And his base case is that there is still a lot of fuel left in stocks. On CNBC on 12/27, he stated that investors became too pessimistic after the appearance of Omicron around Thanksgiving, and raised too much cash. If Omicron cases peak some time this month, than he feels that the stock market bottomed last month and that there is plenty of cash on the sidelines ready to come back in to push prices higher. He is looking for the S&P 500 to hit 5,000 this month. That's the good news. The bad news is that he feels that the probability is high that stocks can see a 10% correction during the first half of the year, although by year end, stocks can still see double digit gains for a 4th consecutive year. He also feels that owning large cap technology companies can help investors, since they will be a reliable source of solid earnings growth.

The analysts at Sentimentrader.com look at market technicals (vs. fundamentals), comparing current price movements to historical data, looking for similarities to predict future stock market direction. This past week, they published 3 separate studies that all point to higher stock prices. On 12/30, they stated that their risk on/off indicator reversed from bearish to bullish condition. "Similar setups to what we're seeing now have preceded rising prices for the S&P 500, with a 4 week win rate of 83%". On 12/28, their study on put volume relative to call volume indicated that traders had become too pessimistic on the outlook for stocks, again indicating that stocks should trade higher in the next few weeks. And lastly, on 12/27, they noted that the AAI (American Association of Individual Investors) survey showed low levels of optimism. "The current low optimism given a mostly healthy market environment, especially during this time of year, suggests higher prices".

Keep in mind that sentiment studies are mostly for short term market direction. They are not looking at long term trends. Greg Diamond of StansberryResearch.com is also bullish for the short term. "But the long-term technical picture is concerning for the bulls" he wrote on 12/20. "What I'm going to highlight today is similar to what happened back in 2000. We're seeing many stocks that were participating in the bull market stall out, top, and then suffer serious declines. Many stocks have broken their uptrends from the March 2020 low. It means the bull market is running out of energy ... The clock is ticking".

I'll close on a positive note. Chris Igou, also of Stansberry Research wrote on 12/21 that "Small Caps Are Poised for a Big 2022". He noted that the Russell 2000 fell 12% in less than a month, leading into oversold territory. "Since 1990, when the Russell 2000 has fallen below and rallied back above oversold territory, small caps have tended to soar", gaining on average 21% in the following year. As you can see, 2022 will be an interesting, and challenging, year. *Jeff Feldman*

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