

Rochester Financial Services

Fee-Only® Financial Management Services

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September 4, 2021	Dow Jones	S&P 500	NASDAQ	Russell 2000	10 yr. Treas	Bitcoin	Gold	Crude Oil
	35,369	4,535	15,364	2,292	1.32%	50,211	\$1,830	\$69.10

Investment Strategy Report

Can Anything Stop This Market? S&P Win Streak Hits 7 Straight Months

This past week we saw Hurricane Ida wreak havoc in Louisiana and the Gulf coast. Remnants of the hurricane then surprised the Northeast by causing the worst rain storms ever in New York City and New Jersey, resulting in dozens of deaths. News on the pandemic front was not good, as the delta variant is causing another surge in deaths and hospitalizations across the country, just as the new school year is beginning. And finally on Friday, we saw a disappointing August jobs report, which saw only 235,000 new jobs added last month vs. an expected increase of 720,000.

Yet despite the devastating news and disappointing economic data, stocks finished yesterday (9/3) at or near all time highs. The S&P 500 finished August with another month of gains, marking 7 straight in the win column. It seems that the only thing the markets have going for them is momentum, the fact that they keep on going higher. That and the fact that earnings are coming in strong. It appears that the economy is determined to fully reopen, despite the surge in new Covid cases. Americans feel that they have been in lock down long enough, and that it is time to get back to normal.

So for those of you who watch the evening news or read the morning papers (I know I'm dating myself), and read about the calamities facing our country, and wonder how stock prices can continue to rise, I'll repeat what I've often said: forecasting stock market direction based on headline news never works. The stock market always looks ahead, passed the current news stories, and instead looks at future economic growth. And apparently, it doesn't see anything ahead that it doesn't like. The economic recovery will continue and earnings growth will recover to pre-pandemic levels and beyond.

While the long term prospects for stocks continue to look favorable, I am beginning to get somewhat cautious about the short term. As Louis Navellier put it in his bulletin on 8/31, the market is a bit overextended. From a technical perspective, it means that stocks are overbought and investors are overly complacent. And whenever these sentiment factors come into play, I always turn to Sentimentrader.com to see what their indicators are saying.

On Aug. 17th, they noted that the market internals for the Nasdaq were concerning. "Yesterday, the Nasdaq Composite closed within 1% of a 52-week high, and yet 2 long term measures of breadth on that exchange fell to very low levels. Those are the worst figures in history, dating back to 1986, for a day when the Composite was so near a high. This internal tumult has been triggering some technical warning signs, such as the Hindenburg Omen and the Titanic Syndrome." On Aug. 18th they noted that "by the time buyers have persisted to the degree they have now, for as long as they have now, future returns over the coming months were mediocre at best, and often negative."

These technical analyses of the market are usually not enough to convince investors to navigate in and out of an ongoing bull market. However, I did take this opportunity to slightly reduce the stock exposure for some of you by selling the positions in small cap stocks. These stocks were lagging the broader market and reducing our equity exposure here seemed to make sense. I view this less as market timing and more as a risk reduction strategy. When stocks are bit overextended and technical factors point to a higher probably of a correction, I consider it a prudent strategy to turn a little cautious. If the market proves to be stable the next few weeks, I will plan to reinvest this cash into those funds with the best prospects.

The bottom line is that the major predictor of bear markets, an impending recession, does not appear to be anywhere in our future. With a strong economic recovery appearing to be on track, stocks should do fine for the next 6-12 months. *Jeff Feldman*

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