Rochester Financial Services

Fee-Only Financial Management Services*

Jeffrey Feldman Ph.D., CFP
Certified Financial Planner
Principal

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Dow Jones	S&P 500	NASDAQ	Russell 2000	10 yr Treas	Bitcoin	Gold	Crude Oil
41,563	5,648	17,714	2,218	3.91%	58,142	$2,536	$73.65

Investment Strategy Report

Stocks Recover From Steep August Sell-Off To Approach New Highs

We survived the month of August, but for a while there, the market's prospects did not look very good. By mid morning on August 5th, on only the 3rd trading day of the month, the S&P 500 was already down 7.3% for the month, and the Nasdaq was down 10.7%. The Dow was doing slightly better, down only 5.7%. I wrote last month about the snap back from those morning's lows, but by the end of the day on August 8th (as I wrote my letter), the market indexes were still down 3.5% to 5.5% for the month. However, the recovery that week continued for most of the month, such that all of the early month losses were erased and the major indexes ended the month in the black. Considering the disastrous start to the month, this was a major achievement.

The early month sell-off reminded us of all the possible reasons why this bull market could be derailed. The biggest fear, and the fear that has been with us for about 2 years now, is that the Fed's restrictive monetary policy, which they have deemed necessary in order to rein in inflation, would cause the pain that the Fed had warned about, a recession that would result in a slowing economy and a concomitant bear market. This fear became evident on that first Monday in August as the stock market fear index, the VIX, soared to an extraordinarily high level of 65. Compared to the very complacent sub 15 level for the VIX for most of this year, a level of 65 indicated that panicked investors were fearing the worst.

I did try to calm your fears last month, citing reports from my analysts that indicated that despite the steep decline, the market uptrend was still intact. Those same analysts seem even more confident now, given the strength of the recovery we have seen since then.

To begin with, the fact that the fear gauge (the VIX) spiked to such a high level and then reversed lower (as stocks began to recover), is a positive indicator for stocks. Dean Christians of Sentimentrader.com wrote on 8/13 "Comparable reversals in volatility, with the S&P 500 in a long term uptrend, produced outstanding returns and consistency for the S&P over medium term and long term horizons". Brett Eversole of Stansberry Research wrote a similar note on 8/14, saying "The Market's Fear Gauge Just Signaled a Major Opportunity". "I looked at every time the VIX spiked to 38.5 or higher since 1990. These surges have only happened 12 other times in that period. And if you'd acted on them, you'd have done incredibly well." One year later, the S&P was on average up 21.5% vs. 8.1% for all periods.

Louis Navellier looked more at the fundamentals (vs. the technicals) of the market and cited on 8/14 that "earnings have been stunning. The earnings of the average stock in the S&P 500 is up 10.9%". He added that one cause of the 8/5 market weakness, the unwinding of the yen carry trade, seemed to have run its course. In his market bulletin the next day (8/15) he went on to say that he sees many indications that the economy remains strong, among them 1) retail sales were up 1% vs. 0.4% expected, 2) Walmart showed strong consumer spending, and 3) new claims for unemployment fell.

As the rebound gained momentum, more indicators flashed green for stocks. Dean Christians column on 8/15 looked at the tech sector, and noted that "Following their pullback, the tech sector has surged, triggering a breadth thrust signal. Comparable thrusts led to outstanding returns and consistency for the group. Should history rhyme, technology should outpace the broad market and other sectors". And it will also mean good news for our growth funds.

Dean Christians continued on 8/19 and 8/20 with more positive columns on the market. His 8/19 column stated "The Risk On/Off indicator surged higher, triggering a new buy signal". "Similar alerts produced excellent returns." He reiterated that this data indicates that "technology looks poised to maintain its leadership status". His 8/20 column added financials to his list of sectors indicated to move higher over the next 12 months. He concluded with some general advice: "As always, trust the thrust". *Jeff Feldman*

Tel: 585 / 442-7580
Fax: 585 / 351-2458
Email: jmfeld@aol.com

4 Old Brick Circle, Pittsford, NY 14534
http://www.rochesterfinancial.com

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