

Rochester Financial Services

Fee-Only® Financial Management Services

Jeffrey Feldman Ph.D., CFP

Certified Financial Planner

Principal

November 6, 2011

Dow Jones	S&P 500	NASDAQ	Russell 2000	10 yr Treas	Earnings Yield (S&P)	Gold	Crude Oil
11,983	1,253	2,686	746	2.05%	7.98%	\$1,756	\$94.26



Investment Strategy Report

Stocks Surge Higher in October as Concerns About Europe Lessen

After five months of debilitating losses, investors finally had a month to celebrate as stocks staged a tremendous recovery in October. Most of the major averages rebounded around 10%, making this October one of the best on record. It seemed like the roller coaster ride of the stock market had enough of the downhill ride and it was finally time for the uphill ride to begin. It's as if investor sentiment is flipped by an on-off switch. One day investors are nauseated by stocks and can't stomach the losses. The next day, all is right with the world and investors salivate over the potential profits that can be made. What caused this turnaround? Did the problems in Europe suddenly get solved? Is the US economy all of a sudden chugging merrily along? The answer might be none of the above but it also might be all of the above. Sometimes investors can look at identical data and come to completely opposite conclusions.

Let's start with the US economy. We all know that Americans are dissatisfied with the rate of the recovery from the Great Recession. The unemployment rate remains high and when underemployment and those no longer looking for jobs are factored in, the total rate goes from 9% to closer to 16%. We have the Occupy Wall Street movement gathering steam and showing that many Americans are frustrated. Obama's approval rating has plummeted. Well, are things really that bad? My answer is probably no. While Friday's jobs report showed that only 80,000 new jobs were added and unemployment is still at a high 9.0%, the good news was that a) revisions for August and September added another 102,000 jobs, and b) the Household Survey report, which includes temporary workers, contract workers, and more of the underground economy, showed an increase of 277,000 jobs which was on top of the previous month's increase of 398,000 jobs. Thursday's report on claims for unemployment showed a dip below 400,000, significant because we need to be below this level to see a real improvement in the economy. Construction spending rose for the second month in a row, up 0.2%, and factory orders rose 0.3%, the most in 6 months. The ISM manufacturing survey showed that new orders are surging. And "US consumers are spending more than ever", writes Frank Curzio (Stansberry Research, 11/4), saying that "Mastercard reported one of the strongest quarters this earnings season. Based on the company's comments during its conference call, investors should stop worrying about another recession". This is important because most investors felt that the summer stock market swoon was due to fears of a double dip recession. If that fear was removed, stocks would have plenty of room to move higher.

But what about the European contagion? If Europe collapses won't that take down our economy too? Probably so, but what are the chances that we see Europe collapse? Legendary investor Leon Cooperman was on CNBC this past Wednesday and basically said that in general, if the world is facing a financial catastrophe, chances are that world leaders will reach some solution to avoid that catastrophe. He went on to say that historically, US stocks have been priced with a P/E ratio of 15.2. They are currently cheap, having a P/E ratio of only 12.5. He added that the historic average yield on the 10 year Treasury has been 6.67% while now they are closer to 2%. His conclusion: stocks are without question a better value. Ron Baron, founder of the Baron Funds, was on CNBC Friday (yes, I watch a lot of CNBC) and echoed Cooperman's sentiments. He mentioned that the problems facing Europe today are not that much different from the problems Germany faced in the early 1990's following its reunification. West Germany faced massive financial obligations at that time, but over a period of years, debt was restructured and Germany emerged as the strongest economy on the continent.

2012 401K Contributions - For the first time in several years, the annual maximum for 401K and 403B retirement plan contributions has been increased, albeit only slightly. For 2012, you will be able to contribute \$17,000 into these plans, up from the current \$16,500. Those age 50 and over can contribute an additional \$5,500 for a total of \$22,500. Most of you know that I consider these retirement plan contributions probably the most important financial planning move you can make.

Required IRA Distributions for 2011 - For those of you who are required to make withdrawals, I have contacted you by either phone or email. If you need help making your withdrawals, please contact me. *Jeff Feldman*

Tel: 585 / 442-7580
Fax: 585 / 473-9947
Email: jmfeld@aol.com

7 Hastings Circle, Pittsford, NY 14534
<http://www.rochesterfinancial.com>



Registered Investment Advisor with the United States Securities and Exchange Commission