June 30, 2013

Dear Investors,

The markets began the week with a sharp decline setting a new lower low and then rallied more than 2.5% higher over the next three days. The rally stalled when the S&P 500 Index hit its 50-day moving average on Thursday and closed lower on Friday. The broad market index spent all but the last seven trading days well above its 50-day moving average. Occasionally, it would trade down to its key support level and then bounce higher in the coming days. In early June, when the S&P first closed below its 50-day moving average, I suggested that more downside was on the horizon. It was only in the last seven trading days that the S&P was well below the technically important level. The fact that it traded up to its moving average and closed lower could be an indication that the markets will move lower in the coming days and weeks. Even if the market trades higher than its current 50-day moving average (1,621), it will be important to see if it can move higher than 1,630. If the market exceeds both levels, then there is a high probability that the market will move higher and set another all-time high. However, based on the technical evidence this weekend, it is more likely that the markets will once again set another lower low. If the latter occurs, then we could see this downside correction bottom around the next Fibonacci phi mate turning date of July 20$^{th}$.

As we reach the halfway point of 2013 the S&P 500 Index is up 12.6% this year. The broad market index ended its two week losing streak by gaining 13.85 points, or 0.9%, this week to close at 1,606.28. The Dow Jones Industrial Average recovered 110.20 points, or 0.7%, this week to close at 14,909.60, and it is up 13.8% in 2013. The NASDAQ Composite added 46.00 points, or 1.4%, to finish the week at 3,403.25, and is up 12.4% year-to-date. The Russell 2000 closed at 977.48, up 13.80 points this week, or 1.4%, and is up 15% this year.

The big news of the week came on Wednesday when the Commerce Department revised the first quarter GDP growth down to 1.8%. The first two estimates released in April and May showed that our economy grew at 2.5% and 2.4%, respectively. This means that the final reading of 1.8% was overstated by 45% during the last two months. That is a pretty big mistake! Can you imagine how the markets would have reacted if they announced a growth rate below 2% over the last two months? The primary reason for the downward revision was that consumer spending for the first quarter was overstated for the last two estimates. When the fourth quarter GDP came out earlier this year, the sluggish consumer spending was dismissed by increased gift card sales. The revenue from the sale of gift cards is not considered a sale or spending until the card is redeemed and goods are actually purchased. For those of you who think that technical market indicators are some type of Wall Street voodoo, how else would you justify the fact that the markets continued to surge higher on this terribly disappointing economic data?

I have said that the downside risks of this market are much higher than the upside potential, which was proven in the recent sharp declines. This is why I strongly urge you to stick to a financial plan. If you do not have a plan then it is even more important than ever to start one. Our B.E.L.I.E.V.E. Wealth Management process can help you with your financial goals.

If you have any questions, would like to discuss your financial plan, or would like a brochure on our B.E.L.I.E.V.E. Wealth Management process, please call my office.

Best Regards,

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