June 7, 2013

Dear Investors:

It was another volatile and interesting week on Wall Street. The markets began the week recovering most of the losses incurred during the final 15 minutes of trading last Friday. However, that recovery was short lived as the markets suffered sharp losses on Tuesday and Wednesday. It looked as though the plunge was going to continue on Thursday, but the markets reversed course midday when the S&P 500 Index reached its 50-day moving average just below 1,600, and bounced to a higher close. The rally continued on Friday with the lowest daily trading volume since the decline started on May 21st. From a short-term technical standpoint, the markets are at a crossroads this weekend because last Friday's selloff was an over-reaction and this Friday's volume was too low to provide convincing guidance. Therefore, if the markets continue to rally on Monday and the S&P 500 Index surpasses 1,654, then we could see it retest the May 21st high. However, if the S&P 500 Index fails to surpass 1,654, then we could see another wave down that could break below Wednesday's closing low of 1,608.90.

The S&P 500 Index finished the week up 12.64 points this week, or 0.8% to close at 1,643.38, and is now up 15.2% this year. The Dow Jones Industrial Average gained 1,332.60 points, or 0.9%, this week to close at 15,248.17, and it is up 16.4% in 2013. The NASDAQ Composite added 13.30 points, or 0.4%, to finish the week at 3,469.21, and is up 14.9% year-to-date. The Russell 2000 closed at 987.62, up 3.54 points this week, or 0.4%, and is up 16.3% this year.

Most of the economic data this week was in line with expectations with the exception of April construction spending, which was growing at 0.4% instead of 1.1%, and April factory orders which grew 1.0% rather than 1.6%. The most important news of the week was the May Jobs Report which estimated that 175,000 jobs were created last month. That was 16,000 higher than was expected but April's figure was revised down by 10,000, so the net gain was basically in line with expectations. Although the headline number seems to be good, it is important to read the entire report issued by the Bureau of Labor Statistics. Of the 175,000 new jobs created last month 205,000 were attributed to an estimate of new businesses that may have been created. In fact, when you look at the April report that stated that 149,000 jobs were created, 193,000 were from this estimate that new businesses were created. Therefore, without the purely made up estimate of newly created businesses, the economy actually lost jobs over the last two months. When you try to reconcile the increase in jobs with weekly first-time unemployment claims, it becomes even more puzzling because during two weeks of May the claims were much higher than were expected while the other weeks were in line with expectations. Lastly, the unemployment rate ticked up from 7.5% last month to 7.6% this month because more people were reportedly looking for jobs.

If you are an avid reader of my weekly market letters, then you know that I have been warning investors about the Federal Reserve Chairman's dangerous experiment over the last four years. His basic premise has been to print money with no monetary backing to buy back debt which in turn will filter its way to artificially inflate the stock market, which in turn will cause investors to feel wealthy and spend money to stimulate the economy. The first two parts have worked to perfection. The money was printed and it made its way to Wall Street to overly inflate stock prices. However, the last part has been a colossal failure. The average person is not spending more and the trillions of dollars of printed money have not stimulated the economy. Bill Gross, the founder of PIMCO Investments, the firm with largest bond fund in the country, recently said that Ben Bernanke is part of the problem rather than the solution. The markets sold off over the last two weeks because Bernanke said that he would start to scale back on pumping fictitious money into the markets in the coming months. I truly believe Bernanke realizes this experiment has failed but he needs a way out that will cause the least amount of damage. A negative Jobs Report would mean that he would have to continue down the dangerous path but this fictitious estimated report allows him to start printing less money because although the economy is not thriving, it is stable. With that understanding, you would think that Friday's low volume rally would not continue because investors will realize that this report will not derail the Chairman's intention of printing less money in the coming months.

The downside risks of this market are much higher than the upside potential and that 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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