July 3, 2012

Dear Investor:

In my last letter dated June 1, 2012, I discussed the S&P 500 Index's decline below key support levels and its 200-day moving average.  The decline continued and bottomed on the following Monday, June 4th.  Since the June 4th low, the markets appear to be in the midst of a five wave (up, down, up, down, up) correction. It now appears that we are in the midst of either the third or fifth wave up of the correction. If the next major move down does not bring the broad market index below its June 4th low then it would suggest that we are in the third wave higher and we should see the markets move higher in the fifth rally wave. If the S&P drops below the June 4th low then it would suggest that this wave up is the fifth wave. In either scenario, it is extremely unlikely that the markets will surpass their April 2nd highs.

Similar to last year, as we reach the halfway point in 2012, the markets have been in positive territory the whole year. The Dow Jones Industrial Average finished the second quarter down 2.5% to close at 12,880.09, but is up 5.4% for the year. The S&P 500 Index lost 3.3% during the second quarter and closed at 1362.16 on June 29th, but is up 8.3% for the year. The Russell 2000 finished the quarter at 798.49, which is up 7.8% for the year even though it lost 3.8% during the second quarter. The NASDAQ Composite lost 5.1% during the second quarter, but is up 12.7% for the year as it closed at 2,935.05 on June 29th.

The markets peaked on April 2nd and retested this year's high then fell short when the rally ended on May 1st. The markets then declined on 15 of the next 21 trading days in May. On June 1st, the Department of Labor released one of the most disappointing employment reports in three years. The "experts" were expecting over 150,000 jobs to have been created in May but the government survey showed that only 69,000 jobs were created. The markets declined on that Friday and bottomed the following Monday as discussed above. For those who are skeptical of technical analysis, the question is why would a dismal employment report kick off a market rally? It would not and should not. This further supports the premise that we are in the midst of an upside market correction inside a larger market decline. There have been no significant improvements in the economy and most of the recent economic data continues to disappoint economists.

The June Jobs Report is due out Friday, July 6th. This could be the catalyst for the next market move higher or lower and that would potentially finish on or about the next Fibonacci phi mate turn date of July 18th. There are several warning signs that have been generated by the markets in the last two months. Therefore, it would be foolish for short term investors to ignore them. The downside risk of this market is far greater than the upside potential.

I will be the featured financial planner in this Sunday's Star Ledger "Get With the Plan" article. If you do not get the Star Ledger, you can view the article under the Business tab on NJ.com. Our unique B.E.L.I.E.V.E. process can help you identify and reach your financial goals. Our WealthVision software can help you consolidate all of your accounts into one easy-to-use portal and give you an up-to-date summary of your assets as it allows you to track your progress toward your financial goals.

If you have any questions or would like an interpretation of technical market indicators, please feel free to call my office.

Best Regards,

**Vincent Pallitto, CPA, CFP®**

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