August 5, 2011

Dear Investors,

Last week, I tried to clarify the factors and events that have led us to the federal debt crisis.  On Monday, our lawmakers came to an agreement to raise the federal debt limit by $2.4 trillion and cut about that same amount from the federal budget over the next ten years.  Similar to the Healthcare Reform bill, the expenditures will be paid over a ten year period.  Although the lawmakers' financial shell game averted a federal default, it did not fool Wall Street.  The stock markets declined nearly 3% by the August 2nd debt deadline.

The real jolt to the markets came later in the week as several European countries reported lower than expected gross domestic products along with rising sovereign debt and already struggling banks.  The Dow Jones Industrial Average plunged 513 points on Thursday alone and fell 5.8% for the week.  It was the worst day for the Dow since 2008.  The S&P 500 Index fell 4.75% percent Thursday and lost 7.2% for the week.  The broad market index is down 10.8% since July 22nd, when its steady declines began.  The NASDAQ composite index is down 11.4% since July 22nd.  All three major market indices are negative for the year.

I previously discussed the possibility that the decline from July 22nd could form a market bottom or Fibonacci phi mate turning point during the first week of August.  I also suggested that the market would overreact to the debt resolution and it did.  However, this week's steep decline has removed several critical support levels. This suggests that the market highs for the year probably occurred on April 29th. The steep decline could also be a revaluation of the stock markets without the infusion of the Federal Reserve's Quantitative Easing policies.  The trading activity on Friday was consistent with a market turning point as all of the major market indices plunged to new lows intraday but finished the day flat or positive.  However, after the market closed on Friday, Standard and Poor's downgraded U.S. debt from AAA to AA+ for the first time in history.  That downgrade seemed inevitable and may be priced into this week's decline or we could see one or two more down days before the markets reverse course.  The reversal should lead to a strong bear market rally that could last for several weeks. However, this week's decline is a preview of a much larger decline in the coming months.

This weekend, politicians and pundits are discussing whether S&P's downgrade was politically motivated, but it is simply shocking that it took this long.  The U.S. government has lost money in 36 of the last 40 years and it has exponentially increased its debt with no real means of controlling spending or increasing revenues or GDP.  The Obama Administration is downplaying the significance of the downgrade, but there is no doubt that it will have an adverse impact on our struggling economy

On Friday, the Department of Labor released the July Jobs Report which showed that the economy added 117,000 private sector jobs last month.  The Department revised the anemic June report to show that 40,000 jobs were created rather than the 18,000 that were initially created.  On Thursday, first-time unemployment claims were over 414,000 and last week's first time claims were revised to 401,000, which brings us to 17 consecutive weeks of first time claims over 400,000.

The markets are volatile, but it is imperative to stick with your financial plan.  I know that many investors see the negative headlines or hear unsettling news reports, but please do not become a panic seller.  This decline could be a buying opportunity for short term investors.

I want to thank you for your referrals and confidence.  A referral is the greatest validation of our service and commitment.  If you have any questions, please do not hesitate to call.  Our mission is to be your trusted financial professionals dedicated to delivering a high level of service to enhance your lifestyle and provide peace of mind.

﻿﻿Best Regards,

**Vincent Pallitto, CPA, CFP®**

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973-301-2360

973-301-2370 Fax

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