August 15, 2014

Dear Investors,

Two weeks ago, I discussed the significance of the S&P 500 Index breaking below several key support levels. I also suggested that if the broad market index traded down to 1,910 then it would confirm that we are in the midst of larger wave (d) down that should consist of five alternating sub-waves. On Thursday, August 7th, the S&P reached an intraday low of 1,904.76 and closed at 1,909.57. This appeared to be the end of sub-wave (a) down. Over the next six trading days, the markets bounced higher and regained about 60% of their losses from their respective July closing highs. Normally, technical bounces recapture about 66% to 75% of their losses. Therefore, we still could see the markets move a bit higher to complete sub-wave (b) higher. The ideal range for this corrective sub-wave higher would be for the S&P to reach between 1,965 and 1,975. When the next sub-wave (c) down ends, the S&P may close below 1,890. The last two sub-waves, (d) higher and (e) lower may complete the larger wave (d) down on or about the next Fibonacci phi mate date of October 9th.

Since the Dow Jones Industrial Average bottomed on August 7th, the Blue Chip Index regained 295 points. Since my last letter, it has added 169.54 points, 1.0%, to close at 16,493.37, and is now up 0.5% for the year. The S&P 500 Index gained 29.91 points, or 1.6%, over the last two weeks to close at 1,955.06, and is up 5.8% this year. The NASDAQ Composite jumped 112.29 points, or 2.6%, over the last two weeks to close at 4,464.93, and is now up 6.9% for the year. The Russell 2000 gained 26.79 points, or 2.4%, to close at 1,141.65, and is now down 1.9% in 2014.

Most of the government economic statistics and news were mixed over the last two weeks with some data points coming in better than expected and others worse than expected. The news that seemed to be dismissed this week was that the nation's largest retailer, Walmart, along with other retailers, reduced projections for the current quarter. This should concern the Department of Commerce since consumers represent about 70% of our GDP. The most alarming economic news came from Europe as Italy and Germany posted negative GDP growth and France was flat with zero growth. If two consecutive quarters of negative GDP growth represent a recession and now the U.S., Germany, and Italy have one quarter in the books, then I would think that there is reason for concern. Furthermore, when you consider the fact that the European economy is heavily dependent on Russian imports and exports, the economic sanctions placed on Russia for invading Ukraine should further stall economic growth in Europe.

Our conservative, tax-efficient approach to financial planning helps our clients understand the risks and the possible rewards of investing in various asset classes. It can help you develop an asset allocation strategy that meets your tolerance for risk and volatility. Our Social Security analysis along with our B.E.L.I.E.V.E. Wealth Management process can help you understand and project your retirement income. If you want to discuss your Social Security options, financial plan, and tax strategies or would like a brochure on our B.E.L.I.E.V.E. Wealth Management process, please call my office.

Best Regards,

Vincent Pallitto, CPA, CFP®
Certified College Planning Specialist
Summit Asset Management, Inc.
www.summitasset.com
973-301-2360
973-301-2370 Fax
A branch office of, and securities offered through LPL Financial
Member FINRA SIPC