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| |  | | --- | | September 17, 2010  Dear Investors:  Last week, the markets may have completed the corrective wave up that started on August 27th precisely on the estimated mathematical phi mate turn date of September 10th.  However, I noted that the corrective wave up was about 1% to 1.5% short of the targeted upside range.  On Monday, the markets added the missing 1.3% on an intraday basis, but settled the day below their intraday highs.  For the balance of the week, the markets seemed to bounce off the upper resistance levels several times on extremely low volume.     The markets finished the week near Monday's intraday highs to set new closing highs for this corrective rally.  The Dow Jones Industrial Average added 141.03, or 1.35%, for the week to close at 10,603.80, and is now up 1.7% for the year.  The S&P 500 Index added 16.38 points, or 1.48%, for the week to close at 1,125.93, and is up 1.0% year-to-date.  The NASDAQ Composite gained 73.38 points, or 3.27%, for the week to close at 2,315.86, and is up 2% for the year.   The trading pattern over the last week is almost identical to the trading pattern that we saw in April after the last sell signal generated by the VIX, which is an exchange traded option that measures the volatility of the S&P.  On April 13th, the VIX generated a sell signal and the markets began to peak and curl over before starting a multi-week decline on April 26th . The markets then lost over 12% over the next four weeks.  The daily and weekly stochastics are now extremely over-bought. Therefore, I would expect the markets to begin the next significant leg down early next week.   Since August 27th when the second quarter GDP was revised 33% lower than the previous estimate to 1.6%, the S&P has been up 11 days, down 2 days and flat 2 days.  There is no justification for a short-term meteoric jump.  There has been no economic data to suggest that the economy is stronger than anticipated for the third quarter. New and existing home sales remain at record lows, unemployed or under employed Americans are increasing in number, and consumer spending is anemic.  The Commerce Department did report that August retail sales were slightly better than expected, but it is likely attributable to back to school spending, which can be difficult for families to cut back.  Corporate profits are strong, but corporate investing can only go so far without the consumer.  During this euphoric rise, it appears that everyone has forgotten that Intel announced that it was not going to reach its third quarter revenue estimate on August 27th.  It is important not to be fooled by ambiguous data and although the markets are reacting like there is no chance of a double dip recession, there are still signs of that possibility.   The current debate over whether or not to extend the Bush Tax Cuts for two years is another Band-Aid approach that will not strengthen our economy.  A two year extension would only prolong the sideways uncertainty of the economy and the markets.  Some moderate Democrats are proposing to not raise taxes on the lower and middle class families, but instead to only increase the taxes on those families earning more than $250,000.  It is interesting that the Bush Tax Cuts that supposedly only benefited the "rich" are now being extended to help lower and middle class earners.  The President consistently encourages people to be hopeful, but as I tell my clients, hope is not a plan. The government needs to control spending and implement a concrete economic strategy.     This week, the markets should begin the next significant wave down.  The McClellan Oscillator is suggesting another large price move over the next day or two.  There is a possibility that one more small move up could occur before the decline, but based on the stochastics and relative strength index, there is a higher probability that the large price move will be to the down side.  If the Industrials drop below 10,500 and the S&P drops below 1,110, then that would signal the start of the next significant wave down.   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®**  Certified College Planning Specialist  Summit Asset Management, Inc.  [www.summitasset.com](http://r20.rs6.net/tn.jsp?llr=5cqn8gdab&et=1103699414380&s=327&e=001ci1VxfBQLMWEyHlW7JAUnz1vnyZ-_yXfWvP6vN1bGB18xw-MBBhcsrTUJD3i7I7XBAbfu3oYolm1iFgSr-PBpyWVreDQ9gi9cYnkRF16lLwkl9tkt9y4fg==)  973-301-2360  973-301-2370 Fax  A branch office of, and securities offered through LPL Financial  Member FINRA SIPC    *You cannot invest directly in a market index, market indices are for benchmark purposes.  The information in this market commentary is obtained from various news sources, Stockcharts.com and* [*technicalindicatorindex.com*](http://r20.rs6.net/tn.jsp?llr=5cqn8gdab&et=1103699414380&s=327&e=001ci1VxfBQLMX4aA06Hmb1B3EIv9e5_pKOcIT7xVQJMAletT1Y1bmeRESKAjS6p2phJ9iZJEdd86sgEFvms3XubUnKsg-hLLk0la9GvuCuAgMC1fpTwjb3Ug0HrQj0b6qP)*.  The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual.  To determine which investment(s) may be appropriate for you consult your financial advisor prior to investing.  All performance referenced is historical and is no guarantee of future results.* | |  | |