

July 1, 2016

Dear Investors,

Two weeks ago, I wrote that the markets looked like they wanted to finish the second quarter on the positive side for the year. Last week, the markets were irrational and volatile. This week was just as wild as the markets opened lower and continued last Friday's sell-off. The S&P 500 quickly took out the 2,025 level, which seemed to accelerate selling to the downside below 2,000. The new lower low for this wave triggered new short-term buy signals. By the end of the week, the S&P 500 Index recovered all of the BREXIT losses. However, there was significant technical damage hidden in this week's rally, including two Hindenburg Omens. Hindenburg Omens generally occur weeks before a steep market decline.

The Dow Jones Industrial Average catapulted more than 800 points off of Monday's closing low to finish the week up 548.62 points, or 3.2%, higher at 17,949.37, and is up 3.0% this year. The S&P 500 Index jumped 5% off Monday's closing low of 2,000 to gain 65.54 points, or 3.2%, this week to close at 2,102.95, and is up 2.8% this year. The NASDAQ Composite jumped 154.59 points, or 3.3%, to close at 4,862.57, and is down --2.8% this year. The Russell 2000 was the laggard for the week only gaining 2.6%, or 29.23 points, to close at 1,156.77, and is up 1.7% this year.

As we finish the second quarter of 2016, corporate earnings are expected to decline for the fifth consecutive quarter. Corporate earnings, which should be the fundamental reason for buying stock, have been declining. However, the stock market is acting like it this is not happening. The markets peaked last May/June and have tried to retest or surpass those levels at least four times and they will probably give it one more try over the next couple of days. Last weekend, all of the talk was about the impact of BREXIT on the global economies. This week, the markets reacted like BREXIT had no impact at all. It is for these reasons that I continue to say that the markets are trading on a technical basis rather than a fundamental basis. Based on the supply and demand of the markets, this week's rise appeared more to be short-sellers buying back positions than long-term buyers actually buying.

There is a Fibonacci cluster, which is several mathematically calculated turning points, between July 7<sup>th</sup> and 11<sup>th</sup>. These have come about from the markets' recent activity which could mark the end of this wave. There is a Fibonacci phi mate date in August which could mark the bottom. On Friday, there was a small change in the McClellan Oscillator index suggesting that a large price move is coming on Tuesday or Wednesday. Based on wave mapping, the move could be to the upside to retest the highs once again. However, due to the abrupt turnaround last week, the rally could be truncated early. This means that the large extreme move higher last week and short-term over-bought position of the markets make it is more likely that the large move could be to the downside.

Last week, I wrote that the markets are at dangerously high levels with too much global uncertainty. This week there are more uncertainties and the markets are even higher. The pundits are discussing the possibility of the U.S. joining the ranks of Japan and Germany with negative interest rates. This means that it will cost you money to put money in the banks. I believe that it is unlikely, but just another uncertainty. The downside risk to this market is far greater than the upside potential. This may be a great time to take some profits or rebalance or reallocate your portfolio. If you want to discuss your financial plan, risk analysis, and/or tax strategies or would like to refer a friend or family member, then please call our office or email [info@summitasset.com](mailto:info@summitasset.com). It is time to put our B.E.L.I.E.V.E. Wealth Management process to work for you.

Regards,

**Vincent Pallitto, CPA, CFP®**

Certified College Planning Specialist

Summit Asset Management, Inc.

[www.summitasset.com](http://www.summitasset.com)

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://technicalindicatorindex.com).*

*Fibonacci Phi Date (also known as Fibonacci Time Extensions) is a technical indicator used to seek to identify the timing of significant price movement in the market, and is based on the Fibonacci Number Sequence.*

*The Hindenburg Omen is a combination of technical factors that attempt to measure the health of the NYSE, and by extension, the stock market as a whole. The goal of the indicator is to signal increased probability of a stock market crash.*

*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.*

*The economic forecasts set forth in the presentation may not develop as predicted and there can be no guarantee that strategies promoted will be successful. All performance referenced is historical and is no guarantee of future results.*

*The Standard & Poor's 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.*

*The Dow Jones Industrial Average is comprised of 30 stocks that are major factors in their industries and widely held by individuals and institutional investors.*

*The NASDAQ Composite Index measures all NASDAQ domestic and non-U.S. based common stocks listed on The NASDAQ Stock Market.*

*The Russell 2000 Index is an unmanaged index generally representative of the 2,000 smallest companies in the Russell 3000 index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index.*

*The Blue Chip Index is a stock index that tracks the shares of the top-performing publicly traded companies. These indices are unmanaged, which cannot be invested into directly.*

*Past performance is no guarantee of future result.*

