September 30, 2011

Dear Investors:

In my letter from June 30, 2011, I stated that the markets had just finished their first positive week following eight declining weeks. Even after the eight week decline, the markets were not in negative territory during the first six months of 2011. In July, I was expecting a technical bounce higher in the short-term, but the overall trend was expected to be downward through the third quarter. The markets did in fact zig-zag higher during the next three weeks of July before the bottom fell out. The S&P 500 Index finished down over 14% on September 30, 2011 making it the worst quarterly loss since the fourth quarter of 2008.

The past week got off to a good start as the markets rallied over 3.5% following last week’s 6.5% decline as investors hoped that the European Union came up with monetary policy that would stabilize their banks. I constantly say, “hope is not a financial plan” and therefore it is certainly not a valid monetary policy. By week’s end, only the Dow Jones Industrial Average managed to post a gain. The Industrials finished the week up 141.90 points, or 1.3%, to close at 10,913.38, and are now down 5.7% for the year. The S&P 500 lost 5.01 points, or 0.4%, this week to close at 1,131.42, and is down 10.0% year-to-date. Last week the NASDAQ Composite was the best performing index, and this week it was the worst as it lost 2.7%, or 67.83 points, this week to close at 2,415.40, which is down 8.95% this year.

Over the last two weeks, I noted the fact that we are inside a Fibonacci Cluster of phi mate dates through October 3, 2011. This means that based on prior mathematical dates, several phi mate dates fell within the last ten trading days. We have seen sharp short-term market turns but the overall direction does not look like it is about to change. There are several different ways to label these market waves. However, there is a higher probability that the markets will zig-zag lower into, or near, the next phi mate date of November 11,2011. The other alternative is that the markets hit bottom this week and then move higher into early November. If the markets were to move lower over the next five weeks, then it could be assumed that the Federal Reserve or the European Union would implement another quantitative easing policy that could spark the 40%-60% bear market rally that the technical indicators are suggesting.

This week’s economic news was mixed with some better-than-expected reports, but still not positive or strong enough data to suggest that the economy is improving. On Monday, New Home Sales for the month of August were 295,000. This is 2,000 better than economists’ predictions, but still at anemic levels. On Tuesday, the Case-Schiller survey of 20 cities decline in home prices was “only” 4.1% for the month of July. Economists were expecting a 4.5% decline. On Wednesday, August Durable goods were down 0.15% compared to market expectations of up 0.1%. On Thursday, seasonally-adjusted first-time unemployment claims dropped sharply from 428,000 to 391,000 this week. The drop seems to be contradictory to reality and probably has to something to do with the seasonality adjustment as the actual claims only declined by 28,800. We also learned that the third estimate for the second quarter GDP ticked up to 1.3%, which was 0.1% better than last month’s estimate. On Friday, we learned that household Personal Income declined 0.1% whereas the experts were expecting it to increase by 0.1%. Personal Spending was up 0.2% for the month which is attributable to higher prices and not an actual increase in spending. Therefore, based on this week’s data it can be concluded that the economy is still heading toward a second, or double-dip, recession.

The Obama Administration is unwilling to admit that its policies have failed. The Federal Reserve Chairmen and Treasury Secretary would argue that TARP, QE1 and QE2 prevented a financial meltdown, but it is hard to measure events that did not happen. The question that remains is instead whether these policies avoided or simply masked an inevitable problem. They have wasted billions of dollars, weakened the dollar, created inflation and placed the average American household in worst shape than it was three years ago. The markets are lower than they were three years ago, many have lost their jobs or were forced to prematurely retire, and the cost of everyday goods and healthcare has increased substantially. The answer is not higher taxes on the wealthy but it is reduced spending. During the first two years of the Obama Administration, the democratically controlled government wasted billions of dollars on failed monetary policies. They promoted their agenda of healthcare and “green energy” programs and have increased healthcare costs for many and lost a half a billion dollars alone on the Solyndra loan.

I welcome your comments and enjoy reading your feedback regarding my letters. 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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