September 7, 2018

Dear Investors,

Now that the summer is unofficially over, trading volume has picked up. The large price move suggested by the McClellan Oscillator last week was to the downside as traders reaped the summer profits. The large move lower generated new sell signals for several of the key market indices. In addition, the volatile trading activity generated four consecutive Hindenburg Omen observations this week and a total of six in the last couple of weeks. This is a huge warning that the markets are at tenuous point. In fact, several of the technical indicators are very similar to where they were prior to the February/March decline. However, it is interesting that the Dow Jones Industrial Average is not declining as much as are other indices which may be setting up a year-end surge that will carry all four major indices to new all-time highs to complete the concurrent long-term, mid-term and short-term rising bearish wedge patterns.

The Dow Jones Industrial Average only lost 48.28 points, or -0.2%, this week to close at 25,916.54, and is up 4.8% this year. The S&P 500 Index lost 29.84 points, or -1.0%, this week to close at 2,871.68, and is up 7.4% this year. The NASDAQ Composite was hammered this week losing 207.00 points, or -2.55%, to close at 7,902.54, and is up 14.5% this year. The Russell 2000 was also hit hard losing 26.94 points, or -1.55%, to close at 1,713.80, and is up 11.6% this year. Gold slipped $5.10 this week to close at 1,201.80, and is down 7.9% this year.

The holiday-shortened week was highlighted by the release of the August Jobs Report which showed that 201,000 new jobs were added to the economy. The monthly survey included 104,000 jobs that were supposedly created by the start of new businesses. The prior two months were revised lower by 50,000 jobs. Maybe the new businesses that were guessed to be created did not actually open. The unemployment rate remained constant at 3.9%, but the average hourly earnings increased. The latter makes sense as corporate tax cuts could be filtering through to employee wages. This report reaffirms that the Federal Reserve will continue to raise interest rates 3 to 4 times over the next year.

The markets could be in for a tough time as the political rhetoric ramps up prior to the mid-term elections. Wall Street generally sells on uncertainty. If the rhetoric seems to suggest that the Republicans will lose control of the House and/or Senate, then the markets could sell off with the fear of two years of political gridlock. If the Republicans retain control, then that could be the catalyst to propel the markets higher to the end of the bull market where all four indices peak at the same time, before a very challenging 2019.

From a technical aspect, this week’s decline generated several new sell signals with increasing bearish divergences. It will be important to watch the 50-day and 200-day moving average for the major indices. If the S&P 500 bounces off 2,830, then we could see the markets move higher into the next Fibonacci phi mate date in early October. If the S&P breaks below 2,830, then there could be a sharp sell-off into the Fibonacci phi mate date.

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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 McClellan Oscillator is a market breadth indicator used in technical analysis by financial analysts of the New York Stock Exchange to evaluate the balance between the advancing and declining stocks.

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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.

Precious metal investing involves greater fluctuation and potential for losses.

Past performance is no guarantee of future result.