October 12, 2018

Dear Investors,

The stock and bond markets were hammered this week as investors seemed to focus on the rising interest rates that were announced two weeks ago. This was only the third time in history that both the stock and bond market declined at the same time. Generally, as investors seek safety from falling stocks, bonds increase in value. Last month, I wrote about the extreme over-bought level of the markets on a daily and weekly basis. Since the October 3rd Fibonacci phi mate date, the Dow lost more than 2,050 points. There was substantial technical damage done as all of the major indices shattered critical support levels. There should be a bounce higher as short-sellers buy back their positions, but more downside is likely.

After plunging more than 1,400 points by mid-week, the Dow Jones Industrial Average ended the volatile week down 1,107.06 points, or - 4.2%, to close at 25,339.99, and is up 2.5% this year. The S&P 500 Index broke through several key support levels as it lost 118.44 points, or - 4.1%, to close the week at 2,767.13, and is up 3.5% this year. The NASDAQ Composite lost more than 3% for the second consecutive week after losing 291.56 points, or -3.7%, this week to close at 7,496.89, and is up 8.6% this year. The Russell 2000 was hammered again this week losing 5.2%, or -85.43 points, to finish the week at 1,546.68, and is up 0.7% this year. The price of gold rose by $14.90 to finish the week at $1,221.60, and is down 6.2% this year.

According to the pundits, investors turned their focus to rising interest rates and the monetary tightening policy this week. I have been discussing this since the second quarter, and it is a serious concern. The markets were propped up since 2010 by money that was printed by the Federal Reserve and placed into the banking system. The policy failed to generate meaningful growth, which is why the easy money policy has been in place for so long. After the new tax legislation last year, wages, employment and economic growth accelerated causing the Fed to aggressively tighten the monetary policy to slow inflation. Is this too much too fast? Only time will tell, but it will certainly pressure the markets over the next two years.

The markets sold off sharply around noon on Wednesday, Thursday and Friday as margin calls came due from over-leveraged positions. On Friday, the Dow started off with a 400 point gain that turned negative around noon but recovered to finish the day 287 points higher. This price action is indicative of short-sellers buying early, margin selling by mid-day, and general buying in the afternoon. This type of bounce could be short lived.

From a technical aspect, the S&P 500 did not bounce off its 50-day moving average, 2,875, early in the week. This opened the technical flood gate for the 200-day moving average of 2,765. The broad market index could not find support at the 200-day moving average and fell sharply below it on Thursday and closed just over it on Friday. This decline from the October 3rd turning point appears to be wave (1) down. Wave (2) higher appears to have started Friday, but forced margin selling again on Monday could delay the technical bounce. After wave (2) higher is complete, wave (3) down is likely to bring the markets much lower in the near term. We could see the S&P near 2,600 and the Dow near 24,000 by the time wave (3) is complete. The next Fibonacci phi mate date is November 7th. It will be interesting to see if that will mark the bottom or top of a wave.

Many of our clients are surprised at their projected tax savings for 2018. It is contrary to what you have probably heard or read, but a recent article on NJ.com stated that only about 10% of NJ taxpayers are expected to pay more in federal taxes in 2018. Therefore, it is a great time to be proactive. Follow us on Facebook for weekly tips and insights. Please call our office or email info@summitasset.com to set up an appointment to see how you may benefit from the new tax law.

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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.