December 23, 2011

Dear Investors:

Although I did not intend to write a market analysis letter this week, the trading activity was so fascinating when you understand the economic data that was released, that I felt it was important to comment on it.  It is remarkable that the markets reversed course precisely on the December 20th Fibonacci phi mate turn date right after closing at their lowest level since the December 7th phi mate date.  It was the fourth consecutive market turn that occurred on the phi mate date.  In my letter last week when the S&P 500 Index was down 3% for the year, I suggested that the markets would be choppy going into year-end and that they might finish the year relatively flat.

The reason that this week's trading activity was so fascinating was that though November new home starts and building permits were better than expected, existing home sales, durable goods excluding transportation and the third estimate of the third quarter gross domestic product were all worse than expected.  Of course, the GDP and durable goods numbers were the most important of the group and when they come in less than expected it normally triggers a market sell-off.

Another fascinating thing about this week's trading activity was that markets generated a Hindenburg Omen on Monday.  A Hindenburg Omen is a combination of technical indicators that attempt to measure the "health" of the New York Stock Exchange.  In the past 25 years whenever a market crash of 20% or more occurs, two Hindenburg Omens occur a few months before the crash.  Monday was the first such occurrence this year; therefore, I will be looking for a second confirming event in the coming weeks.  If this should occur, then it would be consistent with the third major leg down that should follow the current major leg up that looks like it will finish next week.  If you recall from my previous letters, the first major leg down started with the April 29th highs and ended with a 19.3% decline in the S&P 500 Index on October 3rd.  The second major leg up that started with the October 3rd low is just about three months old and has seen the S&P regain 14.8% as of today's close.  If this technical path continues, then the next major leg down should take the markets substantially lower than the October lows.  Of course, nothing is certain, however everything seems to be falling in line to support this theory as we come upon another market turning point on or about December 28th.  The next Fibonacci phi mate date is March 7th.   It is possible and consistent with the prior length of the first two major legs, that the next major leg down could last until early March.  Coincidentally, this would also be the three year anniversary of the market lows.

At this point, the markets are sitting at their December 7th highs.  This could be the upper boundary of the major leg up and the third major leg down could start early next week.  If the markets move above their December 7th intraday highs early next week, then we may see another 3% to 5% move higher before this major leg up ends late next week or sometime during the first week of the new year.

This is not a rosy forecast for the holiday weekend. Hopefully, it will change in the coming days and weeks, but right now it is a time to be cautious and not fall prey to over-hyped enthusiasm reported by the mainstream financial media.

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.

﻿﻿Have a happy and healthy holiday season!

**Vincent Pallitto, CPA, CFP®**

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973-301-2360

973-301-2370 Fax

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