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Market Update

As you probably know by now, the Dow fell 513 points today, and the S&P 500 fell 60 points. The Dow is back to where it was Dec. 10th, and is now down 1.7% year-to-date. On the S&P, today's drop takes us back to Dec. 1st, wiping out all of its gains since then. The S&P 500 is now down 4.75% year-to-date. This is not the end of the world, especially after the large gains in the markets in 2009 and 2010. Nevertheless, it is disconcerting, and we want you to know that we are watching developments closely and are prepared to act if necessary.

The cross currents are many, but what precipitated today's action was the ECB expanding their overnight lending facility to European banks given the problems some Italian banks were having. They did so to try to get ahead of a potential problem, but some investors took the action as a sign that things were worse than they thought in Europe, and the stampede out of stocks and into safer assets began.

In our opinion, this too shall pass. We believe the markets are oversold now based on expected earnings and stock valuations, and a bounce is likely near term based on the technical oversold readings that we follow. Fundamentals in the U.S. are good right now. Gross Domestic Product only grew 0.4% in Q1 and 1.3% in Q2, but it is still expected to grow faster in Q3 than in Q2, and faster in Q4 than in Q3 according to consensus estimates. Interest rates are very low and are expected to stay low, inflation is likely to fall as oil has declined from its year-to-date highs, and taxes are low. As a result, corporations are making all kinds of money and we expect their good results to continue, which should ultimately propel stocks forward. We are not yet giving up on the notion that this will be a good year for the stock market.

Nevertheless, we need to focus on the now, and do whatever is necessary to protect portfolios. Tomorrow, the unemployment rate and jobs created in July will be announced before the market opens. We will see what it holds. We don't expect any big surprises either on the upside or downside. We just have to see how the market reacts during the day tomorrow. If we don't get some comfort, we are going to take some money off of the table. We will not just sit back and do nothing. The market averages one 10%+ correction every year, and this is probably just that, and no more, but we have to be careful and evaluate the situation on a day by day basis. We would be a lot more concerned if the underlying fundamentals were not as good as they are right now. We do not expect a double dip recession. We just expect slow continued improvement in the economy.

We will send you an update tomorrow after the market closes. Don't lose any sleep over this. We have our trades queued up, and we are ready to act if circumstances call for it.

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