



## Our Point

I am traveling on Friday, so I am putting this report out before the market open. The market has bounced a little this week as Congress looks to have struck a short-term solution to the debt limit. The can is kicked down the road and we will need to deal with this again in December but, for now, the market has breathed a sigh of relief. Removing one of the uncertainties is good but many more remain. The jobs report that is due out before Friday's open could be a market mover. It will be interesting to see how the market reacts to the report. While some are hoping for a healthy number or a beat of expectations, others are hoping for something more tepid. A strong report would indicate that the economy is continuing on its road to a full recovery but would also put some pressure on the Fed to act sooner on tapering and interest rates than the market might like. A tepid number or a miss of expectations would do just the opposite. We suspect that as long as we don't get a huge miss either way, that the market will take it all in stride with little reaction. With three up days in a row, the market's slight oversold status has been relieved. Importantly, Thursday, the S&P broke above a level of support but was also turned back by the 50-day moving average. Short-term, the S&P is in a downtrend with lower lows and lower highs. The index will need to continue up above the next level of support (around 4470 or so) to break this pattern. Turning down from Thursday's close would be another lower high and would raise the specter of a more significant correction. In the bigger picture, the S&P only suffered a 5% correction and is currently only 3% off of its highs. Interestingly, small caps have been the relative winner in the recent downdraft and has held up much better than the S&P and Nasdaq. Small caps are often the beneficiaries of a strong 4<sup>th</sup> quarter, so we will be watching them for opportunities. While volatility has certainly picked up, there is nothing currently that indicates the current weakness is anything other than normal profit taking. Even a decline of another 5% would not nullify the bull market. However, there is no denying that the market environment has changed, and risk is elevated. We remain positive about the market environment but do believe a little caution is in order until the downtrend pattern has been broken. There were no changes made to our portfolios this week and we still have a little bit of cash to put to work once the current weakness has subsided. We will be watching the market reaction tomorrow morning and the various levels of support to determine our next move. Have a great weekend and, as always, thank you for your trust.