

Hi Everyone,

“The market does not beat them. They beat themselves because, though they have brains, they cannot sit tight.”

-Jesse Livermore

Ten years ago, I wouldn't have been able to sit tight but the best way to learn how to manage risk is by doing it with live ammo and believe me, since 2000, there has been a lot of risk to manage around.

There are 3 ways that I generally look at a market: **Bullish, Bearish, or Not Enough** of one or the other. Last week's price action in the US reminded me that institutional investors are not yet **Bearish Enough**. Plenty of bulls still have the same catalyst – “earnings”. They are going to be “great”, allegedly?

The S&P 500 rallied 5.4% from its YTD closing low of 1022 established on July 2nd. It was its first 4-day rally since early April.

That's bullish on a 4-day basis, but that doesn't mean that anything has changed from a risk management perspective.

So the way I look at the S&P 500 is that it has a possible upside to 1094. If the S&P 500 cannot close above 1078 though, the bulls will be forced to sell into week 1 of their “earnings” catalyst; the step downs in the S&P 500 are real. First line of support is down at 1048, then there is no support until 1005 (-6.7% downside from here).

We're just past the half way mark of this 2010 game and I see no reason why I wouldn't sit tight here. With the S&P 500 down -11.5% from its April 23rd high and down -3.4% YTD, the better benefit of the doubt remains in the bear camp.

This morning's run of global macro news reminds me of three things:

1. Sovereign Debt issues are here to stay
2. American Austerity is on the way
3. Global growth is going to continue to slow

On the sovereign debt side:

1. Japan's latest Prime Minister, Naoto Kan, has already lost the Upper House. Apparently the Japanese don't like tax hikes and austerity.
2. Spain's stock market is less impressed with the country's definition of a “stress test”, trading down this morning.
3. Russia is looking to start selling Eurobonds!

In terms of **American Austerity**:

1. The US Dollar closed down for the 5th consecutive week last week and is starting to look a lot like the Euro did in December of 2009 Ominous.
2. US Bond yields on the short end of the curve remain at record lows, reminding us that deflation by devaluing a currency isn't economic growth.
3. Washington Post story by Dan Balz today: “Co-chairmen of President Obama's debt and deficit commission, Erskine Bowles, offered an ominous assessment of the nation's fiscal

future here Sunday, calling current budgetary trends a cancer "that will destroy the country from within" unless checked...and this is as clear as a bell."

From India to China this morning you are seeing more of the same – both year-over-year prices and growth continue to slow. India's industrial production growth for the month of May slid to +11.5% versus +16.5% in April. At the same time, China's white hot real estate market continued to cool for the 2nd straight month. Property prices have now dropped to +11.4% y/y (June) versus the April peak of +12.8% y/y price growth.

There is plenty of fresh data in this interconnected global macro world to absorb. There is also plenty of time for us to keep **Sitting Tight**.

We are very close to where sitting tight will pay off.

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