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Scenarios Unfolding Nicely

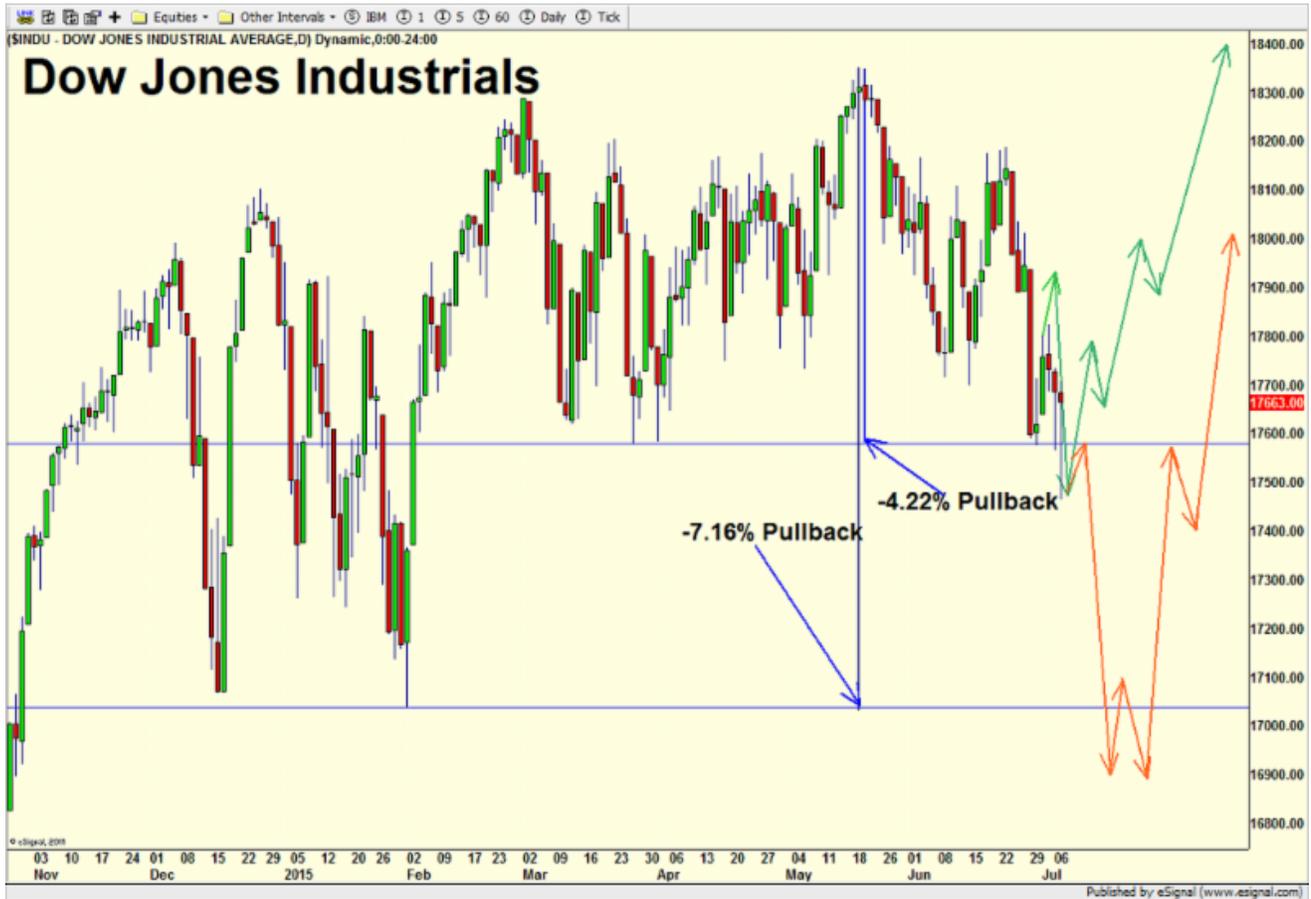
Last week after the Dow plunged 350 points and began to bounce, I offered the two most probable scenarios for stocks, both of which included new multi-month lows before any real rally would begin. [Stock Market Scenarios for Q3](#)

My conclusion was, "just because we saw extreme readings on Monday doesn't mean that the ultimate low was seen. I would argue against that. Monday's snowball day was an important piece, but far from the final piece. Wash out readings like I listed above typically do not coincide with the final low. There is usually more constructive work to be done by price."

Below is the chart I included with the the green (more bullish) and orange (less bullish) scenarios.



Today, the chart is starting to show signs of a potential low in the green bullish case, right on schedule, as you can see below, but it's too early to offer more comments until I see how sentiment behaved so far this week. One thing is certain; the stock market will need much better internals to mount any significant rally, meaning that the number of stocks rallying and declining needs to shift to the bullish side along with the volume on each side. For months, it has been neutral at best or slightly on the negative side.



While the markets and media are singularly focused on Greece, everyone's eyes should be on China which is a much, much bigger issue.

Care more about how the market reacts to news rather than what the news actual is. Watch for spikes in bearish sentiment to set the stage for another leg up in the bull market. The bull market remains old and wrinkly but very much alive.

Rip Off the Band-Aid Greece

As the early tally in Greece showed overwhelming support for the NO camp, meaning they wanted to reject more austerity, markets around the globe braced for another round of strong selling. As usual, the pundits got it wrong. Almost every single interview I watched or read had the vote almost a dead heat. "Famed" investor Wilbur Ross laid a huge egg in not only predicting a YES vote, but also positioning his portfolios for it and then trying to rationalize that the overwhelming rejection of more austerity wasn't as it seemed because "only" 60% of the country voted! The U.S. hasn't seen 60% of eligible voters turn out for a presidential election since 1968!

Put yourself in the Greeks' situation. Each and every bailout has come with more severe measures. Their economy continues to spiral in modern day depression.

\$266 billion in bailouts since 2010. Their debt/GDP ratio has climbed from 150% to 175%. Unemployment has soared to 26% overall and more than 50% in the under 30 market. Greek banks are essentially insolvent and almost out of cash. They have been closed for more than a week with no sign of reopening anytime soon.

Who would really vote for more of the same, but worse?

This process of kicking the can isn't working and won't work in the future. If the Troika (ECB, IMF, EC) really wants to bailout Greece or help them, there's only one solution. Debt relief. Greece wasn't able to pay its bill when this whole mess started and those bills continue to increase. At the same time, as the economy shrinks month after month, tax revenue declines which make the Greeks even more unable to pay their bills. Debt relief is the only solution if the Troika wants to keep Greece in the Euro.

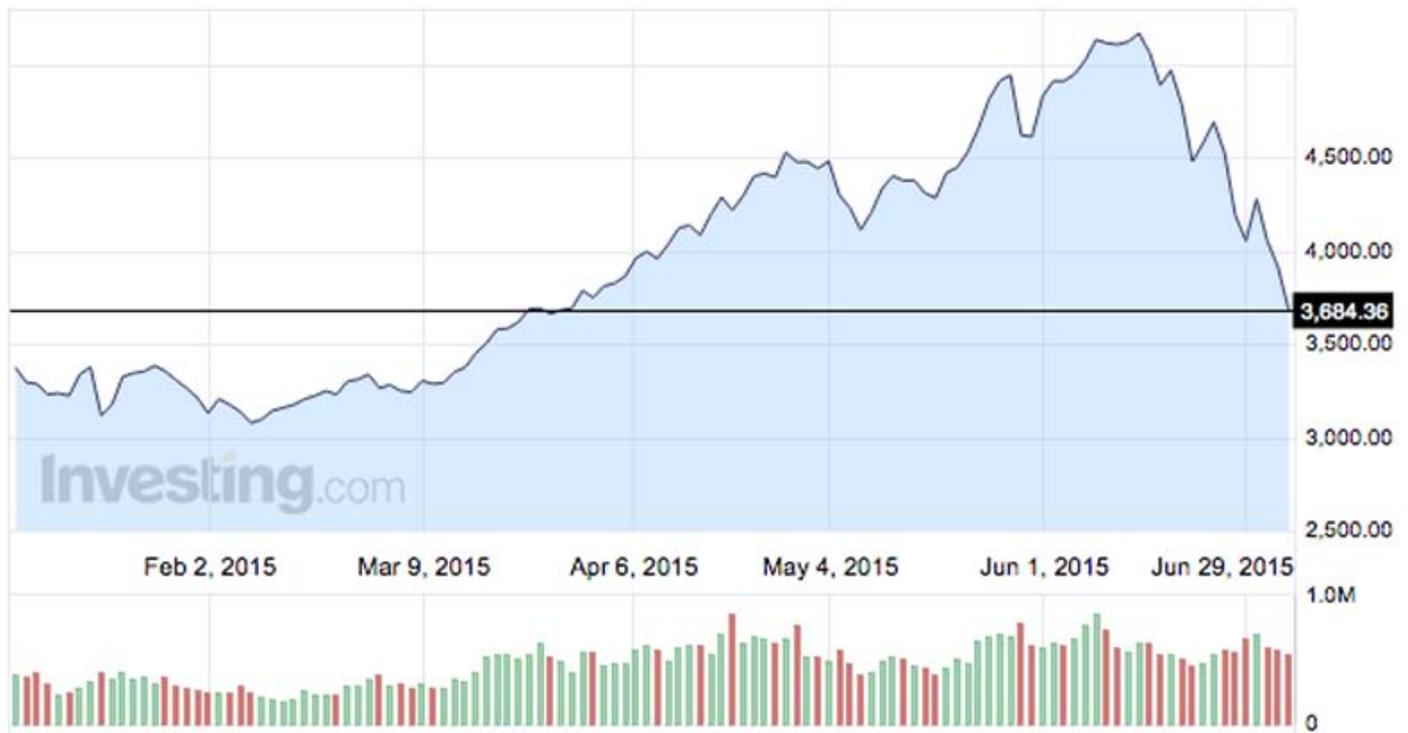
However, with outright debt relief comes moral hazard. What would the Troika do with Italy, Portugal, Spain and France if and when they fall on harder times? Won't they want the same treatment? And we all know how the northern countries including Germany, Austria, Belgium and Finland feel about living fiscally responsibly while the others do not.

I will repeat what I have written many times before. Greece should rip off the Band-Aid and leave the Euro. Circulate those drachmas sitting in the vault. Devalue the currency. Recapitalize the banks. Reflate. While the economy would likely plunge deeper into recession in the short-term with imports next to impossible, it should also begin a strong recovery sooner without the insurmountable debt anchor. Just look at Iceland. Less than five years removed from default, the world started loaning them money again.

China is the BIG Problem

Last Monday, as the stock market was in the process of falling 350 points on news out of Greece, I offered that the much more important news was coming from China where the Bank of China cut interest rates in an attempt to spur on the economy and support the stock market. That was barely a footnote in the media. After an extremely volatile week, reminiscent of 2008, and with the Shanghai Index down almost 25% from its peak, the Chinese government sought further action.

Shanghai Composite ♦ 3,684.36 -228.41 (-5.84%)



First, they coordinated the 21 largest brokerage firms banding together to create a 120 billion yuan (\$19 billion) stabilization fund to buy shares in their stock market. 120 billion yuan seems like a whole lot more than \$19 billion, especially when considering that the Shanghai has lost more than two trillion since mid June. Second, the government put a temporary hold on all IPOs in China to keep asset managers from selling stocks to pay for the IPOs.

While their action may seem proactive and timely on the surface, to me this is woefully inadequate, assuming I actually believe government intervention is actually necessary at this juncture, which I don't. The free market is correcting the excesses built up in the Chinese stock market and economy. As long as the Chinese banks remain solvent and on stable financial footing, their market will get through this. My sense is that the Chinese government isn't in the patience game and will shore up the banks much, much quicker than what was seen in the U.S. in 2008.

This is China's 2008 where the problems emanate from their shores and not abroad. Where our government had no money in 2008 to take proactive measures, the Chinese are sitting on several trillions in reserve and can freely inject capital into the financial system and more specifically, their banks.

Upcoming Appearances

Yahoo Finance - Live Show - July 16th Noon

Fox Business' Making Money with Charles Payne - July 16th 6:00 - 7:00 PM

Fox Business' Making Money with Charles Payne - July 20th 6:00 - 7:00 PM

Fox Business' Making Money with Charles Payne - July 23rd 6:00 - 7:00 PM

Fox Business' Making Money with Charles Payne - July 30th 6:00 - 7:00 PM

You can view most of the past segments by clicking below.

Media Appearances

<http://www.investfortomorrow.com/InMedia.asp>

Investment Quotes/Adages To Live By

"The only easy day was yesterday."

- The U.S. Marines

"When in doubt, get out!"

"If it's obvious, it's obviously wrong."

-Joe Granville

"It's ok to be wrong, but it's not ok to stay wrong."

"This time is different."

"The markets require the patience of a dozen men."

-Robert Rhea

"Luck is the residue of effort."

"The most bullish thing a market can do is go up in the face of bad news."

"The most bearish thing a market can do is go down in the face of good news."

"The market can stay irrational longer than you can stay solvent."

-John Maynard Keynes

"Government is best which governs least" - Thomas Jefferson

Inflation is the one form of taxation that can be imposed without legislation.

-Milton Friedman

"You cannot legislate the poor into freedom by legislating the wealthy out of freedom. What one person receives without working for, another person must work for without receiving. The government cannot give to anybody anything that the government does not first take from somebody else. When half of the people get the idea that they do not have to work because the other half is going to take care of them, and when the other half gets the idea that it does no good to work because somebody else is going to get what they work for, that my dear friend, is about the end of any nation. You cannot multiply wealth by dividing it." - Dr. Adrian Rogers, 1984

"Bear markets seem to be divided into three phases: the first being the abandonment of hopes upon which the final uprush of the preceding bull market was predicted; the second, the reflection of decreased earnings power and reduction of dividends, and the third representing distressed liquidation of securities which must be sold to meet living expenses. Each of these phases seems to be divided by a secondary reaction which is often erroneously assumed to be the beginning of a bull market."

- Robert Rhea

"Free enterprise is a rough and competitive game. Nobody too big to fail. Nobody too small to succeed. It is a hell of a lot better than government control." - Ronald Reagan via Dan Kennedy

"A government big enough to give you everything you want is big enough to take everything you have." - Gerald Ford via Dan Kennedy

"The problem with socialism is that, sooner or later, you run out of other people's money." - Margaret Thatcher

"Diversification alone is no longer sufficient to temper risk... You need something more to manage risk well."

- Mohamed El-Erian

"A little bit at a time adds up to a lot in no time"

Friends And Family Plan



Finally, as you know, our firm and this newsletter continues to grow mostly from your referrals. If you know anyone who is interested in securing their retirement, planning for it or just plain worried about it, please send them here. As always, thanks for thinking of us with your circle of family and friends.

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