

Profitable INVESTING Tips

Stock Market Investing Tips, Techniques, and Resources



Three Potential Black Swans

Despite concerns about stocks being overpriced the markets keep going higher and higher. And that means stocks all over the world are going up. Every time this sort of market euphoria occurs it is eventually followed by a day of reckoning. *Market Watch* writes that the recent **breakout in stocks should not be trusted** and cites three potential black swans. Black swans, by the way, are unpredictable or unforeseen events. They discuss this issue after nine global stock indexes have topped out at the same time.

There have been 39 times when each of those nine indexes has closed at multiyear highs at the same time, according to Lyons. On several of those occasions, we saw the market top out and retreat.

Will this be another one of those times? Obviously, Friday's session showed some weakness, though the damage was slight. This week, the Fed and a full calendar of earnings will play a part in where investors take the market from here. The IMF got the ball rolling Monday with a downgrade of U.S. economic growth forecasts, which could dent stocks in the early going.

Putting technical analysis aside, our call of the day (see below) paints a pretty unsettling picture of what's to come for this relentless market. But so far, investors don't appear to be all that concerned.

The three potential black swans that they are concerned about are these.

*Yellen overshoots, hiking rates too much and too soon
The European Central Bank runs out of bullets
China experiences a debt meltdown*

One thinks back especially to the period before the dot com crash when conventional wisdom was brushed aside and people bought anything with .com in the name. It was argued that the nature of the market had changed and stocks would simply go up forever. There is some evidence of the same sort of thinking before the 1929 crash that ushered in the Great Depression. But this is not an isolated opinion. *CNBC* writes about **two big forces** that could affect the market come August.

While the overall breadth of the market has been sturdy, with more stocks rising than falling on a consistent basis, sectors have moved in and out of leadership in a kind of "immaculate rotation" that has refreshed and supported the broad indexes while keeping strong segments from getting over-extended and preventing weak areas from buckling the tape.

This has been the market's character and will remain so until these patterns shift. The market, for many investors, has been too quiet to trust fully, yet too strong to fight with much conviction.

They argue that August is historically a tough time for stocks and note that the sort of complacency that goes with a continued bull market is likely to keep investors in the market even when warning signs suggest pulling out some cash. That being the case, when the market does correct there could be a monumental rush for the exits which would magnify losses and convert a correction into a crash. Beware of the three potential black swans.

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