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11:16 PM EST

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Inside this issue

Looking for a Bottom. Greece=Opportunity.

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With Monday's **blog** and **Street$marts** being on the long side, I decided to wait a day to offer commentary on how the markets' reaction to the impending default by Greece, bank closure, referendum, etc. would impact the new month and quarter. To reiterate an important market tenet of mine which has been around for decades, it's not what the news is, but how the markets react. We are constantly reminded of that with economic news. Is good news bad news for stocks? Is bad news good news? Is good news good news? Is bad news bad news?

I have already written for years that my personal belief is that Greece should leave the Euro. If Greece was the size of Spain or France, the conversation would be very different as those countries are too big to fail and almost too big to save. Greece's economic output and contribution to the Euro is barely noticeable. Their political system, while democratic, leans heavily socialistic and even more so than most of their European counterparts. Greece has a culture of tax avoidance, fiscal irresponsibility and gross overdependence on the welfare state. It's not working now; it hasn't worked in the past; and won't work in the future. Talk about doing the same thing over and over and over, but expecting different results! That really is insanity!!
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Turning to the stock markets, Monday's negative reaction was for the part, as expected. The longer the "crisis" lasts, the more likely we are to see stocks begin to rally on bad news. That's something to look for down the road and not here. For now, we have to expect volatility to remain elevated with much of the news occurring in the overnight hours. As such, we should wake up to large moves in the pre-market several times a week.

Getting back to Monday, the Dow plummeted 350 points which sounds like a large number, but keep in mind, it's only a 2% decline. 2%! And at the end of that day, the Dow had pulled back a little more than 4% from its all-time, intra-day high in May as you can see from the chart below. For months, I have been in the trading camp, looking to buy weakness and sell strength until the March lows were at least breached. Monday's low revisited those levels almost to the point, a tad disappointing for intermediate-term bulls like myself. I would much rather have seen those levels firmly breached to cause a short-term trap door and shake out some weak handed holders.

At the end of the day on Monday, however, we saw some truly extreme, short-term readings in a host of indicators.

- **90%+ of the volume traded on the New York Stock Exchange was down.**
- **99% of the volume in the S&P 500 was down.**
- **99% of the stocks in the S&P 500 traded down on the day.**
- **Less than 10% of S&P 500 stocks were above their 10 day moving average.**
- **Volume in inverse ETFs spiked as traders hedged and braced for more downside.**
- **Put/call option ratios soared as investors scrambled for downside protection.**

The list goes on and on. Had stocks already been in real decline, you could have argued that Monday was a short-term panic and that the final low was at hand. However, it's hard to make that case with all-time highs so close. Rather, this pullback looks like yet another single digit bull market decline in a long series during this most hated and disavowed bull market of the modern investing era.

For months, I have been waiting for stock market sentiment to at least get back to neutral from levels we typically see before 10%+ corrections and that's finally beginning to happen. Although 20,000 has been my next target for some time, I cautioned that it is highly unlikely for that rally to launch with sentiment so skewed to the bullish side for so long.

However, 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. If history is any guide, a few scenarios open up now as you can see below.

I am going to offer three scenarios in order of likelihood. The first can be seen in green on the right hand side of the chart above. It has the current bounce petering out next week, followed by another decline below Monday's low where the ultimate bottom is seen. Fresh all-time highs would be seen later this quarter.

The second scenario in orange shows a deeper decline below 17,000 on the Dow, which would probably result in calls that the bull market ended and some nasty, long-term bear market had begun. In fact, I heard one former "1998 guru" proclaim yesterday that the bull market is alive and okay as long as the Dow is above 17,038, but once that "magic" number is closed below, stocks are firmly in a bear market. That's one of the dumbest comments I have heard in a long while and I certainly hear my fair share of ridiculous statements! As if a single point or points really matter. Give me a break! If the Dow does decline below 17,000 I imagine that bearish sentiment would skyrocket and exceed what we saw at the Ebola bottom in October 2014 and really give the market rocket fuel for a run to 20,000.

The scenario I did not offer on the chart was the most bullish one where stocks already bottomed on Monday and are slowly starting a rally to the upper end of the trading range we have been in since February. While it's certainly possible, I believe it's less likely because of the extent of the damage already done. Stocks need some time to repair themselves. Of course, when the market ignores the scenarios I offered and does its own thing, I will respond appropriately.

Summing it all up, Greece is a short-term issue and the news will most likely have the most impact as we sleep. 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.

Investment Quotes/Adages To Live By

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"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
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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"

Upcoming Appearances

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

Yahoo Finance - Live Show - July 14th Noon

Fox Business' Making Money with Charles Payne - July 14th 6:00 - 7:00 PM

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

Media Appearances

(http://www.investfortomorrow.com/InMedia.asp)

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