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## Market Following Bullish Scenario

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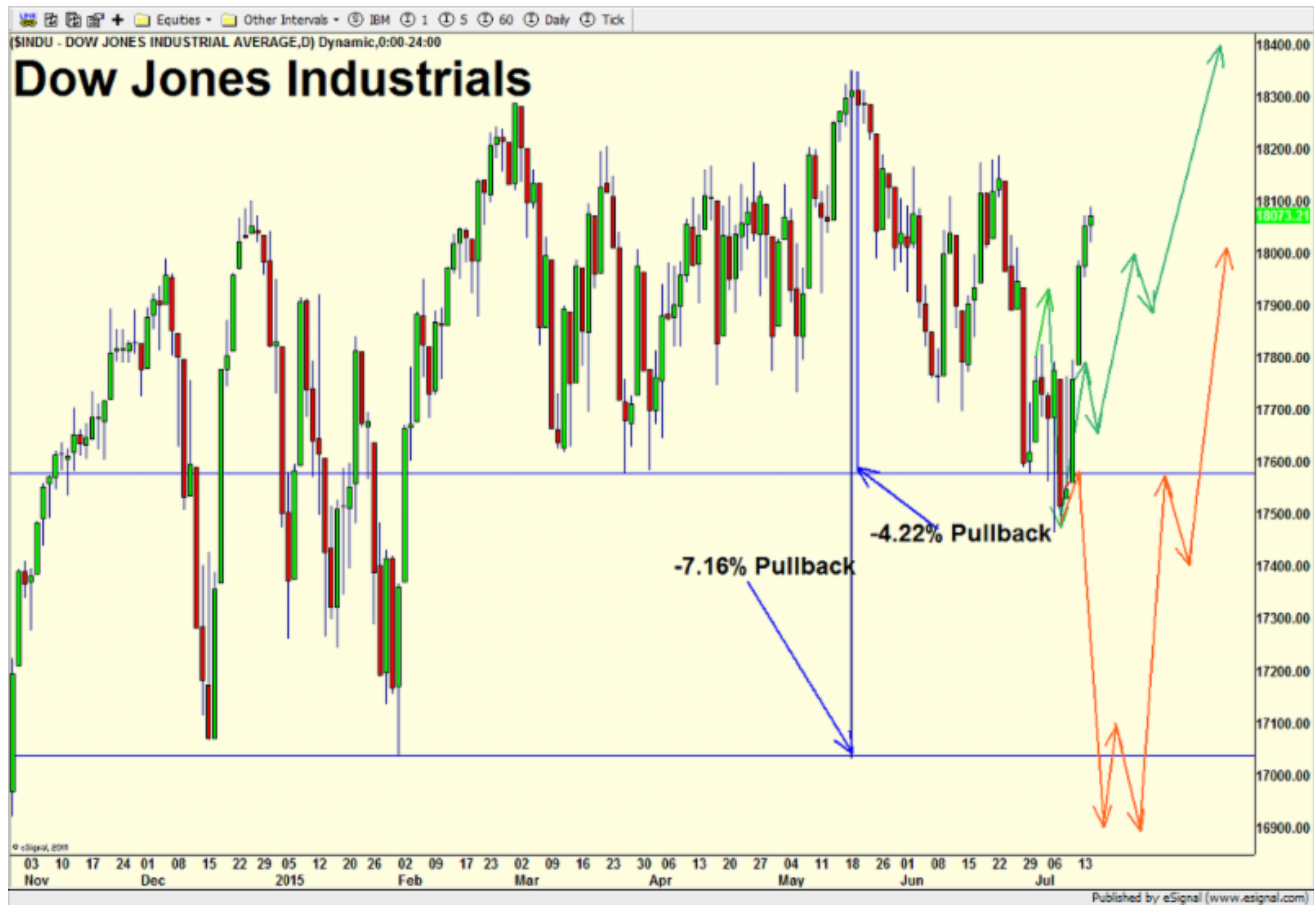
As you can see below in the media section, I am going to be on Fox Business' Making Money with Charles Payne several times in July, including this Thursday, July 16th. On the same day, I will be on Yahoo Finance's new live show at noon. With all that's going on in the world and markets, it should be some fun times!

Below is the chart I have shown twice this month regarding the two scenarios I offered for stocks. I have to say that I am really pleased with how closely our stock market has been following the green, more bullish path so far. Market forecasts are anything but easy, and sometimes fruitless, so it feels good to get one spot on for as long as it lasts. Eventually, all forecasts break down, especially the farther out you go.

At the recent bottom last week, market sentiment had become as negative as we normally see after a 10%+ correction. Stocks had only declined roughly 5%. Put/call option ratios, sentiment surveys, smart money and some technical measures all signaled that reward had outpaced risk.

Now that stocks have rallied sharply over the past week, sentiment has swung almost all the way back from despondent to greed. That's a bit manic for my taste. At this point risk and

reward are just about equal. Should the bulls be able to tack on more gains in the days ahead, that would further solidify the July bottom and portend higher prices into August. For now, I have some doubts with the market foundation showing significant cracks.



Don't forget to check our blog for intra-issue updates.

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## Chinese Market Collapse Not Over

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I remember the outrage when the government sought to pull off TARP in 2008, first buying troubled, illiquid assets from the big banks which then morphed into outright capital injections into the banks. When QE was announced, the calls were equally as emotional, not to mention the myriad of special Fed programs designed to provide liquidity in the financial system when there was little.

I can only imagine what those naysayers believe now regarding China. This is not a new topic here, but I do want to reiterate my own analysis about the collapse in the Chinese stock market. I have seen interesting comparisons to China's stock market right now and ours during the crash of 1929 period. For now, they seem to line up very nicely and suggests further downside. However, a note of caution; eventually, all market comps break apart.

The Chinese are not experienced in dealing with the pitfalls of an almost free market financial system, but they are certainly smart enough not to make the same mistakes we did to cause the Great Depression. It does seem, however, that they believe they can manipulate their way back to a bull market in stocks, something our government learned was impossible in 2007 and 2008.

After the Shanghai Index peaked on June 12 and began to spiral lower, the Chinese government started a series of measures to curb selling. They shelved all IPOs. The 21 largest brokerages created a consortium to inject money into stocks. When both failed, the government prevented large shareholders (5% or more) from selling any stock for six months. As all this unfolded, hundreds of non state owned, non blue chip companies requested that their stocks be suspended from trading until volatility subsided. At last count, those companies numbers roughly 700.

Market bottoms do not end with increased manipulation and a lack of liquidity. There are billions, if not trillions, in pent up selling demand waiting to be unleashed if and when the Shanghai begins to function semi-normally. Just like the Bank of England and Bank of Switzerland learned, you can't ultimately prevent investors from selling no matter how hard you try.

I would also argue that had they left the free market to determine price, the Chinese market might have crashed like ours did in 1987, but the bottoming period would already have begun. Now, with the Shanghai down 28% from high to low and the smaller indices much more, it looks like that market is ultimately headed at least 5-10% lower than the lows so far, if not a whole lot more this year.

## **Another Bad Deal... Iran**

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We woke up this morning to learn that the big western nations struck a deal with Iran to lift the economic embargo in return for nuclear concessions. In life, I have always tried to avoid rewarding bad behavior. Once you start down that path, it never ends. Just look what happened in this country with the S&L crisis, Orange County, Long-Term Capital and Bear Stearns. Talk about moral hazard! While Lehman Brothers put an end to that, look at how far we had to go as well as the consequences to break the rewarding of bad behavior.

I remember when my daughter was two and my wife and I were with her at Wal-Mart. She wanted this little toy on the shelf and we said "no". As we approached the register, she threw herself on the ground and start kicking and screaming about the toy. Everyone looked over to see if this cute this girl was being beaten. Incredibly embarrassed, my wife and I tried desperately to calm her down, but she just kept screaming about wanting that toy. As hard as it was, my wife and I started to walk away and not turn our heads to look back.

Although it seemed like minutes, our daughter leaped to her feet after about 10 seconds, stopped crying and ran straight for my wife's leg to hug. Lesson learned. Don't reward bad behavior.

While the same can be said of how the EU is treating finally Greece, the country has the option to go play on their own. Iran, on the other hand, is a total head scratcher to me. We know the regime sponsors terrorism. That's a fact. We know the regime has been building an offensive nuclear program. That's a fact. We know the regime oppresses freedom and choice. That's a fact. And we know that the regime is about as brutal towards women and human rights as any country on earth. That's a fact.

Why on earth would President Obama want to strike a deal with the likes of the Iranian regime? I am our friends in Saudi Arabia aren't too happy! Why give the Iranian regime access to the energy markets and allow them to rebuild their economy? I don't think anyone really believes that their government will actually use that money to help their own people. Are we naive enough to believe that Iran will actually curtail their nuclear ambitions? Aren't we just giving them money to eventually funnel to terrorists in the Middle East to fight against our allies?

As I sat and read various analyses today, one particularly resonated well with me by Martin Armstrong. The Iranian deal is yet another attempt by the Obama administration to punish Russia. Until now, Russia has been the main supplier of natural gas to Europe. When the Crimea crisis hit, there were fears that Russia would halt sales of natural gas to Europe, which by the way, never happened. Now, Iran will have the opportunity sell their natural gas reserves to Europe and try to squeeze out Russia. Russia, in turn, has been solidifying and strengthening its relationship with China in the energy markets. Neither are sympathetic to anything the U.S. does and will only hurt us longer-term.

Our attempt to isolate Putin has been a disaster and this Iranian deal will be even worse. Russia is not North Korea or Cuba. It's so interesting that the Obama administration is totally hands off on every international situation, but when it comes to Russia, they want to play hard ball. I think ISIS is a lot more worrisome and dangerous than the Russians.

This is a bad deal through and through. Who is next on the deal front? North Korea? How about Hamas?

Searching for winners?

Domestic defense is one sector that should benefit long-term as the rest of the Middle East will be seeking to increase its capacity to fight a war. And the usual European suspects will likely benefit. France for sure. You would think a company like Schlumberger or Halliburton could also see some long-term upside from the deal, but I doubt either would be a huge needle mover.

## Reboot Greece

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Since the latest "crisis" in Greece unfolded in the markets almost two weeks ago, I continued to offer that China was the real problem, but Greece was dominating the headlines. Greece doesn't really matter in the grand scheme of things, economically or market-wise. And even though they struck an absolutely horrific deal for their country, stocks will rally in the short-term because the uncertainty is lifted.

Who in their right mind would agree to more tax hikes, more austerity and more pension cuts in a country spiraling out of control in an ongoing depression? The "deal", once again, just Band-Aid's the problem and kicks the can down the road. Greece needs D-E-B-T R-E-L-I-E-F, not more of the same which hasn't worked since day one.

I have said this for years so you're probably used to hearing it, but Greece needs to leave the Euro, default on their debt, issue drachmas and reflate without much in the way of imports. In other words, as the cable and PC telephone reps advise, they need to reboot. I keep hearing how Iceland is "different" because they have their currency, but I don't agree. It's similar. As bad as it got there, the recovery from depression was sharp and steep and the world loaned them money again less than five years later.

## Upcoming Appearances

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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

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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

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**

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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.

### **Sign Up Here**

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