PRIVATE WEALTH ADVISORY

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Market Update: 2-4-15

The S&P 500 is coiling itself in a consolidation pattern between its 50-day moving average (DMA) and 126-DMA.

This *is* a consolidation pattern and so can break either way: the upside or downside. And the move will be *extreme*.

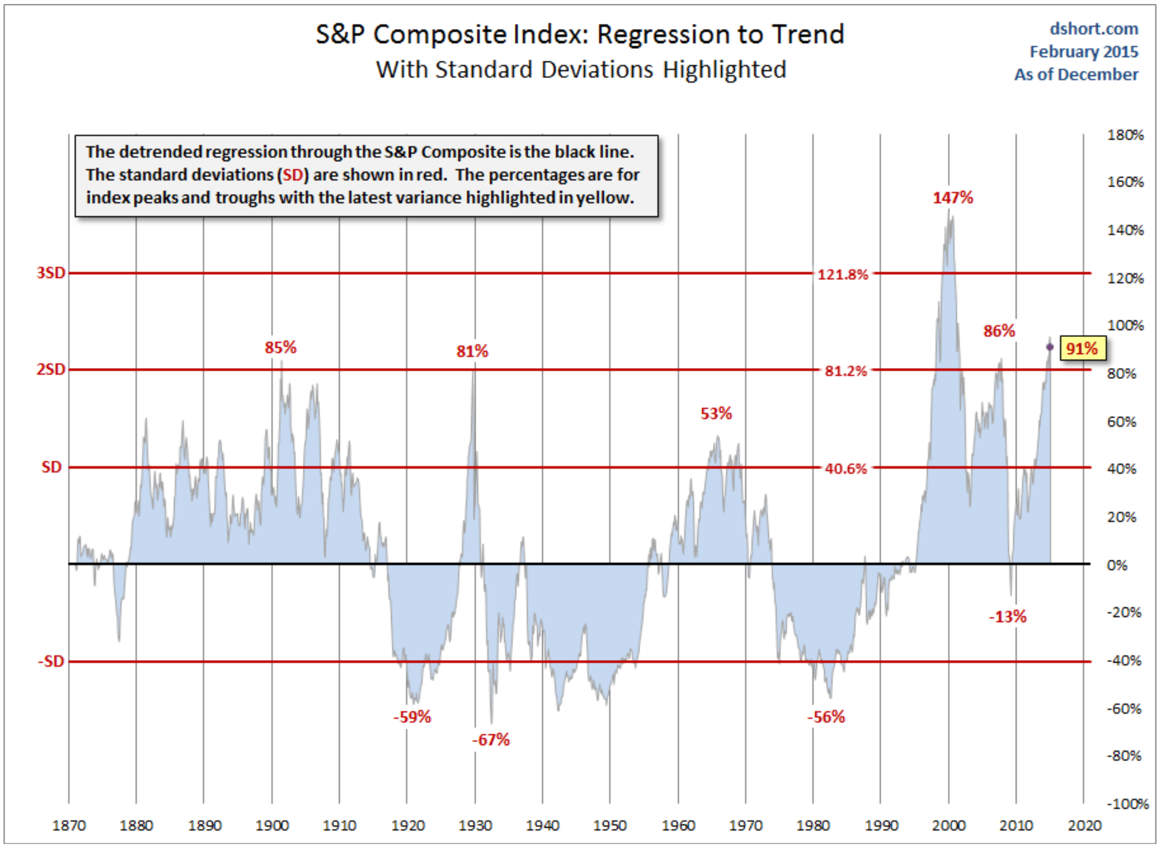
The 50-DMA has been a line of support and resistance for the last two years. Generally speaking, stocks have moved around this line.

However, as the below chart shows, this latest period is unusual in that the S&P 500 has failed to really break above this line on <u>three separate occasions since December 2014.</u>

On top of this, the 50-DMA is now rolling over. The last time we had a rolling over 50-DMA with stocks failing to break above it, we experienced a very sharp collapse of 5.6% in a matter of days (October 2014):

My point with this is that while we *could* break higher here, the odds favor a drop. And even if this is not THE drop, the fact that stocks are struggling so much here indicates that this bull market is much closer to its end than most realize.

Indeed, stocks today are beyond overbought. Going back to 1870, the market has only been more overbought ONCE. Put another way, today stocks are more overbought than they were in the market bubbles of 1907, 1929, and 2007.



The bottomline:

1) Stocks are definitively in a bubble
2) Stocks are struggling to move higher
3) Technical indicators indicate that a top may be forming (if not already in)

Again, this doesn't mean we can't spike higher… but if we do spike higher, the eventual collapse will be even more dramatic.

Elsewhere in the world, Europe continues its political drama of whether or not Greece will restructure its debt. It is impossible to predict what will happen here because the information available to the public is almost always propaganda and the players involved (politicians and Central Bankers) are both crooked and happy to break laws in order to get their desired ends.

The only certainty is that the ECB will do everything in its power to support the large European banks. So whatever debt decision is reached, it will benefit those who own Greek debt above the general welfare of the Greek public.

I do not expect this situation to be resolved anytime soon. The first round of the Greek Crisis was over six months long due to political posturing. And that was at a time when the stakes were lower (there had yet to be a single bailout yet).

This is particularly true now given that what happens with Greece will be a template for every other bankrupt European nation (the PIIIGS and ultimately France) when it comes time to deal with their respective debt loads. So this process will be dragged out as long as possible.

I'm keeping an eye on France. French stocks seem to smell that something's "not right." They can't even break above their first line of real resistance (and this despite the recent announcement of QE from the ECB!).

Regardless of how this process plays out, the Euro in its current form is finished. Greece is just an appetizer. The real deal will be Spain, which is too big and too politically fractured (the wealthy region of Catalonia has a parliamentary election on September 27 that will determine whether to secede from Spain or not) to be bailed out.

So the markets will force this issue before September. I think we'll start seeing some fireworks by March.

My ultimate target for the Euro is at 90.

I'm watching the markets closely and will issue updates as needed. Otherwise, you'll next hear from me next week.

Until then…

Best Regards

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