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## What is next for the stock markets?

We've seen recently an incredible rally in the stock markets worldwide. S&P500 is up more than 74% from its lows in March 2009. Every investor should ask himself what to do now, to participate further in this market, or collect all the gains and to be happy in the mean time?



In order to find the right answer to this question we need to go back and see what caused this rally.

Basically the stock crash before was caused by the slump in US real estate market, appetite for risk taking and accommodating financial policies of the US Federal Reserve, which flooded economy with cheap money. All these caused different asset bubbles in real estate, commercial real estate, commodities and equities. When real estate collapsed under it's own weight it dragged the rest of the economy down. Speculative prices on commodities collapsed and all of that

caused the bankruptcies of some major financial institutions in US which led to the panic sell off in the equities. S&P500 went down more than 57% off its highs. Crisis spread worldwide and caused recession in the world economy. Prices of commodities went down as well as the industrial production and the world trade. Unemployment went up dramatically, in US only unemployment went up more than 10%.

So what caused the recent rally? Has economy recovered? Did unemployment rate go down? Did the real estate prices go up? The answer to all this question is NO!!!

Governments worldwide flooded economies with more cheap money in order to fight recession, following US example. Which in itself seems to be pretty wrong, it's like giving more drugs to the drug addict. All banks had to do something with these money. They were intended to go into the real economy, to provide liquidity to the healthy businesses, but instead went on exchanges lifting market indices and inflating stock markets. It didn't help to the real economy, since unemployment is still at all time high and industrial production on it's knees. Basically what we have today is government induced bubble in the stock and bond markets. It's amazing to see many stocks trading today at pre-crisis levels or even higher, and all this considering multiple delusions of the shareholders by additional stock issues, grim prospects for the growth, and further economic uncertainty.

Such reckless behavior by the governments caused another structural problem in the world – SOVEREIGN DEBT CRISIS. We can see that many developed countries like Greece, Ireland, Iceland, Britain are struggling to service their debts. Which is only a matter of time when one of them will default on it's debt. This will send all stock markets down. In order to service their debt and fight budget deficits governments will have to end policy of cheap money and raise taxes, which in itself enough to crash the markets. All that along with high unemployment will cause stagflation. We can see this beginning now – strength of the US dollar and subdued inflation.

Most likely US markets are going to repeat the fate of Japan. When market went up to all time high and never came back drifting lower through the years.

What we have today on the stock market is an unwarranted rally caused as usual by cheap money and recklessness. Price/earnings multiples over stretched. The question to ask is – if it worse to squeeze few more percent or to lose it all? Most investors are not stupid the trend we see today – people taking their profits in the stock markets and put them into bonds or deposits. 70% in one year is the great gain! There is no reason to be greedy. It's time to think about safety and wait for the market to come in. Sometimes the best trade is the one you never did.

That's why we believe it's time to pocket the gains and stay on the sidelines for now. For the risk hungry investors we can suggest shorting the market carefully.



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