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Gold outlook, Commodity bull market questioned
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Storm clouds forming over market, economy

Confluence of bearish signs

It doesn't pay to be bearish because the vast majority of the time, the market is moving up. It's not good to cry wolf too often. Who's to say after all, that the current market turbulence isn't just like all the other half dozen or so minor pull backs over the past few years, only to lead to new highs within a few months?

There comes a time however when the warning signs start out numbering the factors that have been driving stocks higher - when there is such a confluence of bearish signs, they can't be ignored. That's what's occurred to me as I sit down to compose this mid-year Issue. My concerns revolve around three main issues; the technical weaknesses in major market indexes, converging with a bond bear market and the US housing sector and mortgage melt-down.

1. Parabolic Indexes and other bad technical signs

If you look at a multi-year chart of most major market indexes such as the DJIA - you'll notice the steeper ascent of the last couple of legs, giving the Index a parabolic appearance. Parabolic formations are unsustainable and never end well. Indicators such as the RSI and MACD have turned negative. Major trend lines have yet to be violated, Indexes are still trading within long defined channels, but they appear to be rolling over. The TSX-Venture Index is now under its 50-day moving average and threatening to visit the 200. The DJIA is forming a possible triple top and beginning to test its 50-dma.

2. Bonds are dead

After a 20-year bull market - bonds are now undeniably in a long term BEAR Market, with all sorts of related negative implications. The DJUA (the Utilities) has turned bearish, which is a sell signal for the Industrials (watch the Transports to confirm). Inflation is roaring back, not normally a good thing for stocks. Financial stocks - market leaders for many years are losing their leadership role. Much of what has been driving this market north is bound to change with this sea change of a new bond bear market.

3. US Housing & Mortgage sector decline

The final piece of the puzzle (nail in the coffin?) is the ongoing housing sector slow down in the US and this sub prime lending/ hedge fund debacle that's unfolding. Two Bear Stearns funds took such big hits in their sub prime lending that major banks stepped in and seized their collateral. **Merrill Lynch** was reportedly about to dump close to a billion of these assets, but they backed off over concerns about "collateral" damage to the entire market. Now that's pretty scary stuff. What happens when a half dozen or more similar funds go under - and this time the administrators aren't so concerned about damage to the system, as much as getting out? What kind of domino effect could occur if more homes are dumped on an already weakened market? How will the pension funds which invested in these exotic, creatively packaged mortgage backed securities, going to be impacted? This could hurt a lot of people who had no idea they were investing in very high risk lending while these pension plans were buying into securities holding mortgages which were bound to fail. Some have gone into default within a month or two of being made. What were they all thinking?

Add these all up, and we have the ingredients for at least another potential Long Term Capital, if not something worse. I'm not necessarily talking about a secular bear market. We already decided in April that this should not begin until around 2013. I'm referring to a cyclical bear market. Maybe the authorities will print enough new money to overcome these obstacles and maybe major indexes will just keep heading north. But storm clouds are forming over the global stock markets and economy.

ALSO IN THIS (June/July-07) ISSUE No. #5-07:

- COT New Gold BUY Signal
- Biotech with battered stock, strong product pipeline ($0.42)
- Gold/Mexican near producer ($0.56)

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