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October 17, 2014 – What Is Next For The American Stock Market – By Jeffrey Hagenmeier

Many investors panicked this week as they saw the stock market continue to swoon over the last few days. It was a continuation of the major sell off that began last week. From a high of 17,300 last month to below 16,000 this week induced quite a few timid capitalists to liquidate their holdings. The S&P was down by nearly 8% from the September all time high. Once all the gains for 2014 disappeared, some individuals decided incorrectly, that this was the time to sell. These are the investors who buy when prices are high and sell when prices are declining. Although the market was going down to be sure, if you were invested in stable and normally profitable companies, there was no need start selling parts of your portfolio.

In fact, there was money to be made in the market. One could of shorted oil and natural gas over the past two weeks and made a substantial amount of money. Those investors as was recommended by this writer, who put money into what are classified as the Ebola virus stocks, made significant profits. As the market recovered somewhat to above 16,000, a number of analysts began to assess the damage.

The first consideration is that some including this writer, felt the stock market was overvalued. If one looked at many individual companies, the price of regular stock was far beyond what was sustainable, if you studied actual revenues and profit margins. A number of these companies stock offerings only made sense this year, if you were to invest in them for the short term.

At this point many people want to know what happened? It was a combination of bad economic news that finally forced investors and speculators to take a realistic view of what was happening in the world. This would of caused a decline of some 500 to 800 points from the highs. What caused a doubling of these losses was in my opinion, the Ebola virus scare. Despite the future projections of increase in the rates of infection, (estimated as high as 10,000 a week) and death rates now reaching 70% in West Africa, there has been no outbreak of a pandemic in Europe and the United States. This partly explains the rebound in the American market of about 300 to 400 points, to back above 16,000 later in the week.

The bad news included what is happening in Europe. The largest economy on the continent is Germany. After the expansion of industry and exports in the first half of the year, there was a major change that arrived in August. However, it was important to note that industrial output was erratic in Germany for most of this year. The 4% drop reported in August was the steepest decline since 2009. It should have been expected with the turmoil in Russia and the Ukraine. Russia is one of Germany's largest trading partners, and events there sapped investor confidence worldwide. Manufacturing output was down 4.8% and construction yield declined by 2%. It mirrored the diminution of manufacturing orders of 5.7% in August. This was the largest drop since January 2009.

The economic problems of slow growth in France and Italy and the problem of sovereign debt in the Euro-zone are nothing new. The threat of deflation which will compound this problem, is now on the radar of the ECB (European Central Bank) and steps are being taken to mitigate. One can expect the ECB to start buying assets soon. This will be a further step in Quantitative Easing on the part of the Europeans, to stimulate economic activity. However, the only real long term solution will be economic growth.

Slowing growth in Asia has been an ongoing problem during 2014. Nothing new here. Japan's economy continues to stagnate and the slowdown in China is not extreme. The only real danger in China is the overheated real estate market and rising internal debt. Elsewhere although growth rates are lower than in the past, most economies in the region are still expanding.

The ongoing territorial expansion of the terrorist Islamic state in Syria and Iraq, saps investor confidence not only in the United States but on a global scale.

There has also been some disappointing news in the United States as well. However, it is mostly lower expectations in various sectors of the economy including retail sales, the Empire State Index and the producer price index that explain the lack of investor confidence.

Investors need to look at the positives of the global economy. In Asia, China is still growing by at least 7% and India over 5%. As the world's largest economy, the United States is reporting a GDP (Gross Domestic Product) quarterly growth rate of 4.6% and an unemployment rate of 5.9%. Together with continuing growth in the United Kingdom (3.2%) and Canada (0.8%) and elsewhere, you are looking at 65% of the world economy still growing.

It is true that 1/3 of the global economy is experiencing little or no growth. For many of these countries it is a result of poor economic policies and/or declining commodity prices. The forecasts for these countries combined with the rest of the world has lead the IMF (International Monetary Fund) to reduce global economic expansion for 2014 by 0.4% to 3.3%. Projections for next year have been lowered to 3.8%.

On the bright side, lower energy costs due to the plunge in oil and natural gas prices will be a boon to manufacturing and transportation costs. It will be a welcome relief to consumers in home heating costs in the Northern Hemisphere this winter. It will allow more spending in other areas of the economy.

Lower energy costs will help numerous nations with their balance of payments problems, as reduced fossil fuels costs filter through their domestic economies.

The surging American dollar now at a two year high, in relation to the Euro and a 4 year high against the Japanese yen, will bring a huge influx of foreign investment into the United States. One can already see the evidence of this with declining rates on United States Treasury Notes, that have now gone below 2%. The strength of the United States dollar (USD) will reduce the costs of imports especially in energy costs. This will tamper consumer inflation and will allow the Federal Reserve (the American Central Bank) to keep interest rates lower for a longer period of time. International investors are still quite bullish on the American economy. As a result, they will continue to invest in assets and companies in the United States. This will be a great help in keeping the American stock market growing in value.

If an investor considers these market fundamentals this is no time to leave the American stock market. A number of stocks are now on sale. Which ones? We at the Day Trading Academy will help you to answer this question in the weeks and months ahead. Suffice to say that companies that have large capital investments are good bargains now. Why? The reason being that new competition is not easily achieved in these particular spheres of the economy. Areas to invest in would include the sectors of transportation, communications, energy, medical, and some high tech companies.