

# Profitable INVESTING Tips

Stock Market Investing Tips, Techniques, and Resources



## How Low Will Stocks Fall?

As crude oil has fallen to half its price of six months ago we have posed the question **when to buy oil stocks**? Now that the energy sector is pulling stocks down across the board the question is how low will stocks fall before the market stabilizes? Investors are concerned that the low price of oil has more to do with projected low demand than with over supply. Just how bad will the recession get in Japan? How bad will it get in Europe? How badly will decrease demand for exports combined with the collapse of a real estate bubble hurt China? Will the USA withstand these global economic events and continue to recover economically?

### The Fall of Oil Prices

Reuters reports how stocks are generally lower as a result of a **slump in oil**.

*Stock markets around the world mostly fell on Monday as oil prices showed no sign of breaking their prolonged downward spiral, prompting further losses in beleaguered energy shares.*

*Losses were broad in the U.S. equity market, with eight of the 10 primary S&P 500 sectors down. Energy .SPNY was by far the weakest group, off 2.7 percent. The sector is now down more than 25 percent from a high reached in July.*

The point is the fall in stock sectors outside of energy when, usually, low energy costs lead to profits and stock gains everywhere outside of the energy sector. How contagious is this and how low will stocks fall?

### How Low Energy Prices Hurt Producers

The low price of crude oil is not only painful for the US oil sector. It is especially painful for countries like Venezuela, Iran and Colombia. It is less painful for the Gulf oil states where the price of production is quite low and a low price only means lower profits and not a budget busting loss in income. The Street remarks on how **stocks are falling** as oil prices hit a five year low.

*Stocks moved off session lows by midmorning Monday, though energy stocks continued to drag on benchmark indexes following a forecast from Goldman Sachs that the commodity will remain lower for longer than expected.*

*Crude oil for February delivery fell 3.7% on Monday to \$46.55 a barrel. Among the investment banks cutting oil forecasts, Goldman Sachs analysts said crude would likely trade at \$40 a barrel "for longer" as sector investment is curtailed and global demand-supply*

*balance returned. Goldman said the benchmark New York rate would average \$50.40 a barrel this year, far below its previous forecast of \$83.75.*

*Also hurting crude prices, pleas from Venezuela and Iran for OPEC to cut oil output were ignored, the countries' delegates said Monday. OPEC's Gulf States, including Saudi Arabia, have been steadfast in their refusal to cut production lest the organization lose market share. OPEC will gather in June for their next scheduled meeting.*

To a degree this only affects countries that rely primarily on oil for their survival. Nevertheless, every dollar that oil producers lose means less that they plow into investments or spend in the broader world. In this sense the fall in crude oil prices could send the whole world on the downward spiral into deflation! The question may not be how low will stocks fall but how far will the interconnected economies of the world fall?

## **How Fares China?**

**Chinese stocks drop** as well according to Bloomberg.

*China's stocks fell for a third day, the longest losing streak since November, amid concern a rally for the world's best-performing equities market over the past year has been excessive relative to the outlook for the economy.*

*The Shanghai Composite Index (SHCOMP) fell 1.7 percent to 3,229.32 at the close, the lowest since Dec. 30. The three-day retreat was the longest since China's central bank announced an unexpected cut in interest rates in November. UBS AG said today that valuations for large stocks have reached fair levels and the bull market may stall unless profits improve.*

So long as more and more investors flee the **collapsing Chinese real estate market** they will prop up Chinese stocks and current valuations will seem fair. When the flood of new investors tapers off Chinese stocks may fall substantially as well. Deflation has a way of feeding upon itself and if a generalized lower demand to lower price spiral develops stocks may fall substantially everywhere.

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