Sell before the Market Corrects

The US stock market has had a spectacular run over the last year and is near an all-time high. And price to earnings ratios are high too as stocks become overpriced. We are wondering if perhaps it might be better to selectively sell before the market corrects. The issue as always is to know which stocks to sell, which to hold and which to buy. Market Watch offers their opinion about why stocks will suffer a **correction by July**.

The likelihood of a 10% to 20% correction in the stock market between now and July is relatively high and the risks that investors will have to navigate are significantly greater than they were last year and in 2013.

That is the bad news threatening to capsize what's shaping up to a roughly seven-year bull-market run in U.S. equities.

The reasons mentioned include an aging business cycle, a strong US dollar, an interest rate hike by the Federal Reserve, weak oil prices, flattening earnings, overpriced stocks based on the Schiller PE ratio, economic slowing in China, the Greek debt crisis, the risk of wider conflict in Ukraine and political instability in many regions from the Middle East to Venezuela and Argentina. But, if you are going to sell before the market corrects, what do you sell and what do you hold or buy?

Can Oil Go any Lower?

Crude oil prices have fallen by half since the middle of 2014. This is because recession in Japan, the risk of recession in Europe and slowing Chinese growth have served to reduce demand for oil. In the meantime the fracking revolution in the USA has raised US production to levels not seen in more than forty years. But, as the price of oil declines it does not make economic sense to drill new wells as the upfront cost of fracking is so high. National Geographic also asks how long will the **oil boom last**?

In the short term, the price drop threatens profits from fracking, which is more expensive than conventional drilling. Sure enough, permit applications to drill oil and gas wells in the U.S declined almost 40 percent in November.

But in the long term, the U.S. oil boom faces an even more serious constraint: Though daily production now rivals Saudi Arabia's, it's coming from underground reserves that are a small fraction of the ones in the Middle East.

The second point that they make is the more important for the price of oil and investing in oil stocks. Oil will probably not go any lower so, in general, oil stocks are not the ones to sell before the market corrects. But, in a few years you may want to get a clear idea of what reserves a company has in oil shale before investing.

How Bad Could Things Get in China?

Chinese industrial production is slowing and economists expect China to be happy with a five percent per year growth rate by 2020, compared to ten percent or higher during the glory years. An indication of the thinking of wealthy Chinese investors is the amount of money flowing out of China to purchases property and other assets anywhere else but mainland China! Forbes writes about how politics in China leave **China's economy exposed**.

To combat this weakness, the Chinese are increasingly using debt to power the economy. A new report from McKinsey shows that China's total debt load, including the government, banks, corporations and households, equals 282% of GDP – more than advanced economies like the US (269%) or Germany (258%). China has added $20.8 trillion in new debt since 2007, accounting for more than a third of total debt growth globally in that period.

Remember Japan at the end of the 1980s when Japanese investors bought Rockefeller Center and the Pebble Beach Golf Course? It appeared that Japan was going to take over the economic world, until its soft belly of hidden loans came to light and Japan entered more than two decades of deflation from which it is now barely emerging. What to sell before the market corrects might well be every Chinese stock and ADR that you own!

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