

Seven Reasons to be Very Cautious

You know that famous song by The Who, "Won't Get Fooled Again"? That's the kind of attitude I recommend when approaching this market. Simply put, there still are many reasons to be über-cautious with your money. In fact, I've identified what I think are the top seven reasons to be very cautious right now, and here they are...

Reason 1) The European debt crisis is far from over. There seems to be no end in sight to Europe's fiscal difficulties. Promises to pay pensions, fund social programs and provide bank bailouts top the list of Europe's debt woes, and each issue has the potential literally to bankrupt the continent.

Reason 2) Warnings from bellwether companies. Best Buy and FedEx are two companies we all know well. The electronics super store and the overnight delivery service are both struggling to beat Wall Street expectations, and that's not a good sign for future earnings. We also recently saw retail sales numbers that were far from robust.

Reason 3) Don't forget about Asia. We all know about the China miracle and the story line that points to Asia leading the world out of the Great Recession. But there seems to be some problems with this theory, as we've come to discover that most of Asia's growth is dependent on Europe and America. If there is a significant slowdown in Europe that spills over into the United States, you can forget about growth in Asia.

Reason 4) Most international indices are still below their 200-day moving averages, and that signals a high level of risk. We can look to the United States and take some comfort in the recapture of the 200-day average over the past week, but if this rally fails, look out below.

Reason 5) The sign of the black cross. Another troubling technical occurrence I'm seeing here is that in many international market charts, the 50-day moving average has fallen below the 200-day moving average. This "black cross" is truly the sign of an impending bear, and that's a big reason for caution.

Reason 6) The "flash crash" unsolved. I just can't help thinking that there is a systemic problem on the exchanges that has yet to be corrected. We still don't know the real cause of that 1,000-point Dow plunge on May 6 in less than an hour and, until we do, the potential for such a problem occurring again remains.

Reason 7) The geopolitical theatre is heating up. If we wake up one morning and find that Israel is engaged in armed conflict with Iran, or that North and South Korea are lobbing bombs over the 38th parallel, there truly will be trouble in River City -- and that means big trouble in that little island called Manhattan, and particularly on the corner of Wall and Broad.

Finally, I don't want to sound like a pessimist, as pessimism is foreign to my natural tendencies. I am, however, a realist. And as a realist, I know that there are a lot of reasons out there for caution -- so be careful out there!