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Today's Stock Traders' and Investors' Complimentary Wrap is based on an EXTRACT from Edition 489 of our Mentoring style *'Investing & Online Trading'* Stock Market Report

Opinion: 10 biggest risks to the Stock Market in 2015

By Jeff Reeves

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Jeff Reeves is the editor of InvestorPlace.com. On Friday 5 December he wrote at Marketwatch:

It is shaping up to be another great year for stocks, with the S&P 500 up about 12% year-to-date in 2014 after a roughly 30% gain in 2013.

But have investors gotten too complacent, and is the market about to take one on the chin in the New Year?

The U.S. economy is showing signs of improvement, sure, and the profits investors have made in recent years are nice. But the market can't go up forever, and 2015 could be a very different environment for traders.

Here are 10 major risks that you should look for as we close the books on 2014 and enter 2015:

1. The Fed:

However you feel about the Bernanke and Yellen regimes, it is undeniable that the U.S. Federal Reserve has used remarkable and unprecedented monetary policies over the last few years … and that, while the stock market and economy both seem to be doing much better now than in 2008, the verdict still is out on how America will wean itself off "easy money" policies.

As of the end of October, the Fed held almost $4.5 trillion on its balance sheet — roughly double the assets held by the central bank in 2010, and four times the total held before the financial crisis. Where we go from here regarding rates and the sale of those assets remains very much up in the air, even if the recovery thus far has been a success.

2. Dividend Stock Shakeup:

If the Fed does manage to tighten policy without a big impact on the overall economy, it's undeniable that a higher interest-rate environment will have serious implications for "bond-like stocks" that pay modest dividends right now.

Sure, income investors have flocked to 2.5% yielders in consumer staples or utility stocks paying 3% … but what happens if the 10-year Treasury note gets up to 3% again, or even 3.5% by the end of 2015?

Investors looking for yield with low risk will finally find it again in interest bearing assets — and could rotate a lot of capital out of low-growth, low-dividend stocks like Colgate-Palmolive (CL) or Coca-Cola (KO) that trade for forward price-to-earnings ratios of over 20 right now.

3. Developed-Economy Divergence:

Goldman Sachs recently highlighted divergence between developed economies as one of its key themes in 2015.

As the investment bank put it, *"A key question for 2015 is whether the smaller open economies like the U.K. and Norway will 'follow the Fed' and raise rates, or whether they are pushed later by the winds of slow growth and low inflation blowing in from the euro area."*

Equities in lagging markets could take a serious hit even if there are pockets of strength elsewhere in the developed world, so investors should watch their geographic exposure carefully as some markets significantly lag their peers.

4. Eurozone Deflation:

Speaking of regions lagging their peers, stagnant wages and the risk of falling consumer prices in Europe are cause for serious concern. Consider that Spain just reported a 0.4% decline in November prices year-over-year, its fifth straight drop and a decline that seems to be accelerating. Falling prices aren't just bad for commodity investors who have seen oil and gold prices slump — if a deflationary spiral takes hold, consumer and business spending will grind to a halt in Europe.

5. Global Wage Stagnation:

French economist Thomas Piketty made waves with his best-selling missive, "Capital in the Twenty-First Century." The book used reams of data to show that global inequality is accelerating, with a widening gulf between the rich and the rest of us. Whether the trend is pervasive and long-lived or simply a short-term phenomenon is open for debate; however, the continued struggle among workers in the short term is too stark to be ignored. A recent report in The Economist showed that since 2009, real wages have barely grown in America and Germany and have actually declined in the euro area and Japan. That does not bode well for continued growth for the global economy, or the stock market.

6. China:

Wherever you put your money globally, you should be avoiding China. With just 6% to 7% growth expected — and with a track record of regularly falling guidance — there's not a lot to be encouraged about in a slowing China. Remember, because of China's size and hopes for urbanization and a transition to a consumer and service economy, it needs 7.2% gross domestic product growth annually just to create enough jobs for prospective workers.

Throw in the continued risk of a financial crisis and China's heavy dependence on government spending, and it's not a pretty picture for this struggling Asia economy.

7. Strong-Dollar Headwinds:

Another side effect of Fed policy could be a persistently strong dollar — something we've already seen for much of 2014. While it's all well and good to see the world still confident in the U.S. dollar, the bottom line is that a strong currency hurts the bottom line for many multinationals.

A strong dollar makes American exports more expensive in foreign markets with weaker currencies, and unfavorable exchange rates can shave a few percentage points off adjusted sales and profits. Considering other growth challenges for many companies in 2015 amid a slowing China and Europe, that headwind comes at an inopportune time.

8. Geopolitics:

Aside from hand-wringing about China's economy, most Americans are largely concerned with their own affairs. However, it's increasingly apparent that geopolitical issues cannot be overlooked.

For instance, ISIS remains a serious threat to stability in the Middle East, the situation in Ukraine is no closer to resolution and tensions are high in old hotbeds of violence including Israel and Iran. We avoided serious economic fallout from conflicts in 2014, but we might not be that lucky in 2015.

9. Optimism Turning Over:

While there has been continual improvement in U.S. employment, stock market values and other indicators, it's important to acknowledge that the lack of risks may have created complacency among many investors. In fact, a recent survey shows that investor confidence recently hit its highest levels of 2014.

While complacency is good when the narrative holds, the biggest risk could be that investors have been buying simply because there's no reason to sell — but any serious downturn caused by one or more of the above risks could change that in a hurry.

Investors who have made a lot of money in the last few years may be in for a rude awakening come the first downturn of 2015, when everyone decides to move out of the market at the same time.

10. A Black Swan:

It goes without saying that the most disruptive events frequently are ones that we didn't see coming. Maybe it will be another natural disaster like the earthquake and tsunami that wreaked havoc in Japan back in 2011. Maybe it will be a high-profile scam that shatters investor confidence, or a "flash crash" caused by HFT robots. Maybe it will be something unlike anything we've seen before.

Whatever 2015 holds, however, investors should expect the unexpected — and stick close to their long-term asset allocation strategy as a way to stay protected no matter what the market throws their way.

Next week, I'll explore 10 reasons to be optimistic about the stock market in 2015 … and you can draw your own conclusions as to where we go from here.

Investing & Online Trading Stock Market Report

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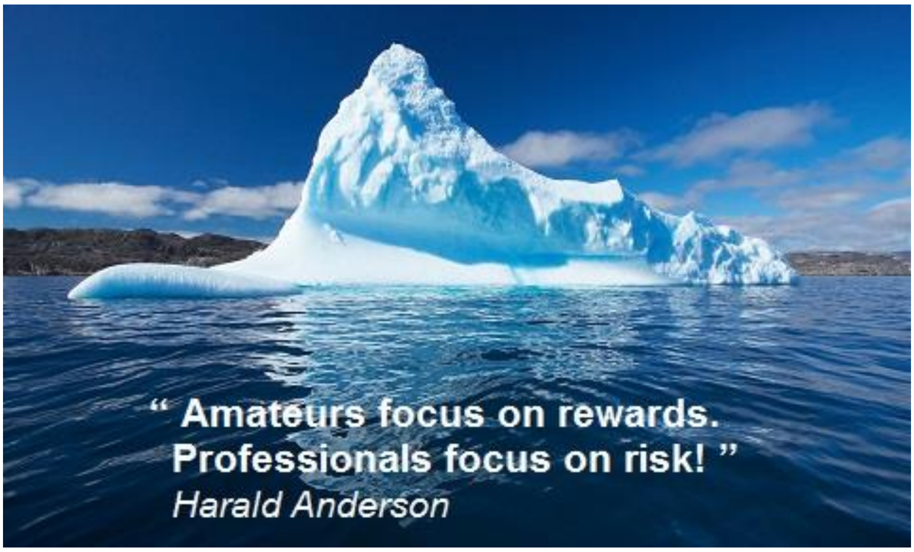

IN THIS WEEK'S EDITION 489:

Article	Author	Page
Introduction to Edition 488	John Atkinson	2
Short Term Trading Portfolios for Australia and USA	Jim Berg and John Atkinson	3
Recent JB Alerts ASX300 & USA	Jim Berg	12
Jim Berg's Stock of the Week	Jim Berg and John Atkinson	13
How to Filter a List of "*Experts' Picks for 2014*"	Jim Berg and John Atkinson	16
ASX: Allocating Capital in 2014	Jim Berg, J. Atkinson & James Gerrish	18
Longer Term Investing Using Weekly Charts	Jim Berg and John Atkinson	20
Solving Your Trading Problems	Jim Berg and John Atkinson	23
My Market Commentary for December	Alan Hull	24
Market Review	Dr Alexander Elder	25
Market Update	MarketWatch	26
Guppy View of the Market	Daryl Guppy, CEO of Guppytraders.com	29

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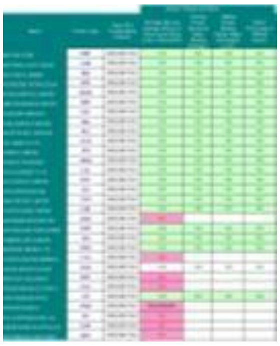

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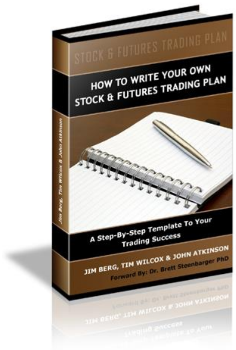

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