

# Six Theories On Why the Stock Market Has Rallied

By [Washington's Blog](#)

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There are at least 6 theories about why the stock market has rallied some 70% off its lows a year ago, even though [nothing has been done](#) to actually address the root causes of the [financial crisis](#).

## What The Dumb Money Believes

The dumb money believes what CNBC and their trusty stock churning ... er, broker ... says: that the government has fixed the economy but it just has to “kick in” (and that unemployment is just a lagging indicator, nothing important. See [this](#), [this](#), [this](#) and [this](#)).

Therefore, these folks believe that stocks are hugely undervalued, and that if they buy while most people are still afraid, they'll make a killing when the market goes to the moon.

## Temporary Juice

Others believe that it is the quantitative easing, low rates, bank bailouts, stimulus spending, and other portions of the “wall of money” which the feds have thrown at the economy are creating a temporary pump to the stock market.

But they think that – when the spigot is turned off – the market will tank.

## The Situation is Inflation

Others believe that – regardless of continued loose monetary and fiscal policy or real stock valuations, we're in for some serious inflation.

Stocks tend to perform well during inflationary periods.

For more on inflation versus deflation, see [this](#).

## Machines Run Amok

[Tyler Durden](#) explains that all of the stock market gains have occurred after hours when mystery buyers purchase stock futures in low volume environments (and see [this](#)).

Vincent Deluard – a strategist for TrimTabs Investment Research ([25%](#) of the top 50 hedge funds in the world use TrimTabs' research for market timing) – [said](#) last month:

We've never seen this before – such a huge rally, and the little guy is out.

Some argue that it is high-frequency trading or momentum-chasing trading algorithms doing

the buying, and that the market will tank when they change their game.

## **Fed Futures**

Others [argue](#) that the government is itself buying stock futures.

Some believe that the Feds aren't buying, but that they have intentionally showered the big banks with money, and encouraged the banks to buy. In other words, they argue that the Feds are indirectly promoting a stock market rally.

## **Fraud Central**

Karl Denninger believes that the market has rallied due to the systemic, fraudulent overvaluation of assets.

As Denninger [wrote](#) yesterday:

[A reader wrote] the FDIC to ask about [allegations of fraudulent valuations]. This was their response:

That's the value the bank had them on their books on their year-end financials, but the true value is much less. It is similar to someone in Las Vegas saying that their house is worth \$300,000 because that's what they paid for it three years ago, but the reality is, if they had to sell it in today's market, they'd only get \$250,000 for it. The FDIC has to sell assets in today's market...

Or tomorrow's market.

The simple fact of the matter is that there it is, right in front of you.

A raw admission that the banks are carrying these loans at dramatically above their actual value.

Yes, this means that essentially all balance sheets must now be considered fraudulent, and thus the valuations assigned by the market to them are also fraudulent.

Extending this to the stock market as a whole you now have a market that is intentionally overvalued as a direct and proximate consequence of fraud, permitted and endorsed by the government, of somewhere between 25-40%.

Now you know why the market rallied off the SPX 666 lows to where it is now. 1139 (where we are now) \* .60 (a 40% haircut) = 683.40, or awfully close to that 666 bottom.

Of course this "valuation" expressed in the market can only be maintained for as long as the fraud is. If the ability to maintain that fraud is lost for any reason then values will instantly collapse back to reflect reality.

*Note: Obviously, I believe this is a bear market rally which will [eventually fizzle out](#). If the bulls are instead right, then that will make me the [dumb money](#). But I think it much more likely that the rally will [change direction](#) in the not-too-distant future.*

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