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**Learn to love the bubble**  14 Jun 2007 08:20 PM

by Alan Rohrbach

LEX dissections of the market responses to China's recent selloff, global inflation and other potential threats to equity market and economic strength have highlighted the degree to which there is now a somewhat 'bullet proof' mentality.

While lip service is paid to the outlying potential for an equity market top, positive factors and risk complacency dominate. The recent sharp selloff in China elicited none of the terror seen in mainstream markets from late February into March, even though it was from much higher levels. If both bad and good news are good news, why worry?

The lesson? Learn to love the bubble; which is not say it should be trusted. In spite of recent technical indications reinforcing a sustained bullish perspective, I agree with those who feel the entire psychology is becoming overextended. Yet, the key is to understand the signs markets are losing their balance from the dizzying heights. In addition to various indications the markets are "overbought" (often to the frustration of their proponents), some sign they are actualizing that potential requires a failure below technical or psychological price support. That neither occurred in March, nor on the recent interest rate driven selloff.

Bull markets develop proverbial long tails moreso from the lack of any overt sign they have reversed up trends than any good reason why excessive valuations are going to maintain forever. As such, embracing the bubble instead of fighting it is not meant to imply marriage to an endlessly bullish perspective.

Rather one should enjoy it while it lasts, in the same way a young person comes to realize their current significant other may not be Mister or Miss Right, yet is a fantastic Mister or Miss Right Now.

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