WallStreetWindow Monthly

Stock Market Barometer

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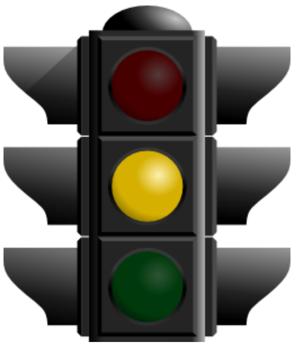
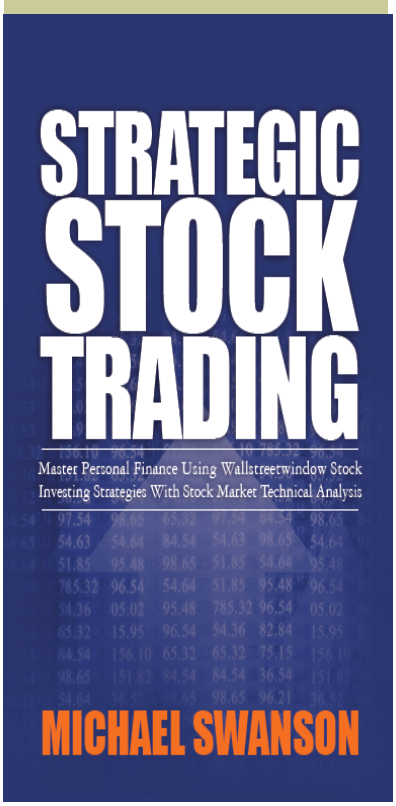


TREND ALERT — WATCH FOR BROAD US STOCKMARKET RALLY TO MAKE CLIMATIC END.



Is This The Last Bull Hurrah For A Generation? —Mike Swanson (06/01/2014)

A few weeks ago I went to the Las Vegas Money show. It's the biggest annual conference for stock market investors in the world. There were a few thousand people there and "big name" speakers. Some of the regular CNBC talking heads were there. Just about everyone there was bullish on the stock market.

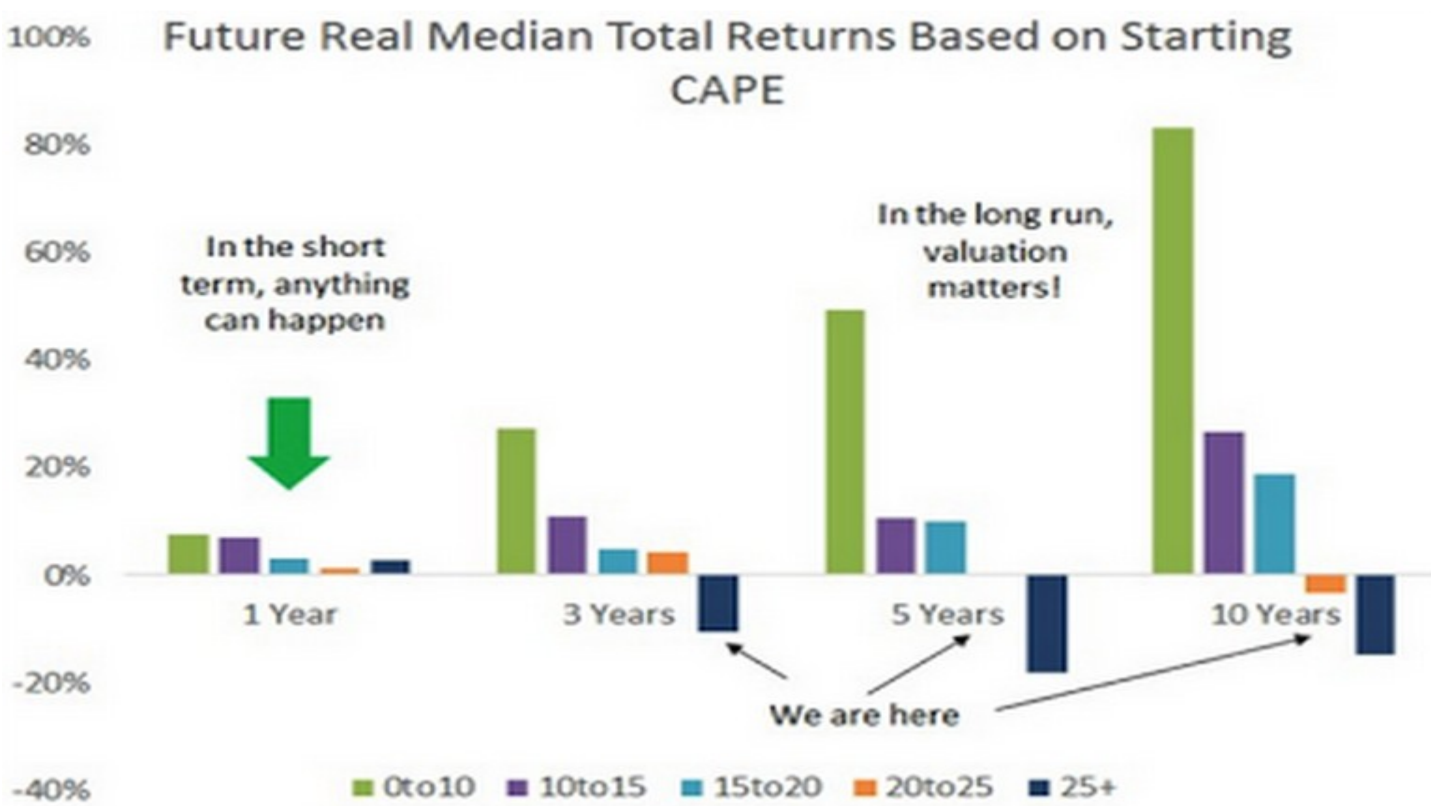
I talked to people walking around just to get a feel for what people were thinking now and all but one of them was bullish on the market. They seemed to be there looking for new investment ideas and very hungry for stock picks and trading programs to play. People went to the booths to stuff their bags full of literature in hopes of discovering the next wonder stock.

Almost everyone at this conference was over sixty years old. I may have been the youngest person there. Very few people younger than me are in the stock market at all. Most young people simply do not have the money to invest in the market. Many of them don't even have jobs and if they do they are saddled with massive debt in student loans. A lot of people got out of the stock market in 2008 and in the years that followed. Statistics show that a lot of individual investors took money out of the market and moved it into CD's and bonds after the 2008 crash. It was only really last year that the money flows among the masses started to go back into stocks. It took the market going up for several years to make them believe in it again and forget the crash of 2008 and the Internet bust of 2000.

This bull market has been going on now for five years. The stock market crashed in 2008, but since 2009 has been rising. Now the S&P 500 is at new all-time highs and is at a high valuation, with a cyclically adjusted P/E of 25.89. That's a high level. In the whole history of the US stock market the median CAPE ratio has been 15.92. So you can consider a CAPE ratio of 25.89 as making the stock market 62% overvalued by its historical norm.

Investment adviser Mebane Faber has done a study of CAPE valuations and market returns for not just the United States, but all world markets and what type of return you can expect five years out from various levels. You can see the result below. At this CAPE ratio if you invest now you can expect to lose money over the next five years. Perhaps a lot of money.

But valuations do not matter to people. All that matters to people is what the stock market has done over the past twelve months. So in 2008 they sold out, because the stock market fell the previous twelve months. People are selling out of gold and gold stocks right now too because they dropped in 2012 and 2013 and have been going sideways ever since. They have lost their patience with them. And the people at The Money Show seemed to be feeling good about their investments and very confident that



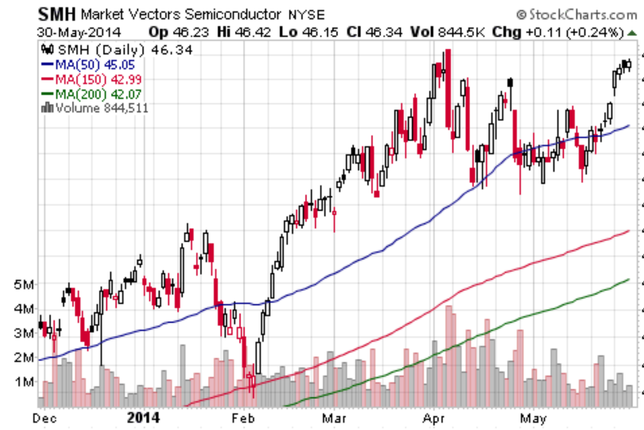
they would be able to make even more from the stock market going forward. None of them cared about valuations at all. They at least didn't mention it. One fella told me that a lot of innovation was happening on the internet and in energy. Another guy told me that Janet Yellen was great for the market and the Fed has proven that it could manage the market. "Don't bet against the Fed," he said. He also said Obama has been a great President and has been able to make the market go up for everyone and you can't argue with that. He believes in his leaders. I didn't ask him, but I'd assume he likes NSA spy programs too.

I think it's fair to assume that these people lost a lot of money on paper in 2008 and in 2000. They were all old enough to have been in the market that long. Most of them probably first got into the stock market in the mid-1990's, because the statistics also show that very few individual investors were in the market during the 1980's. Most of the baby boomers didn't start to put money into the stock market until the 1990's.

Things have not been straight up for them. They got smashed in 2000 and in 2008, but after those bear markets the stock market recovered fairly quickly. So now five years later into this bull market everyone has forgotten about the pain they felt in 2008. They have forgiven the Wall Street banks for their mistakes and have fallen back in love with the CNBC talking heads. The masses have forgotten how wrong they were in 2008 on the way down into the collapse, but don't not care, because the CNBC bubbleheads are telling them what they want to hear now. They are telling them to believe in the market and they will get rich. It's what they want to hear. To the masses 2008 was just a bad nightmare they once had that is now gone from their mind completely forgotten.

People are now excited to hold on to the stocks they have thinking they will go up more for them or fearful of missing out and therefore feeling a need to buy more. People are very hungry for picks and trading ideas. They want to be a part of this market. Last week's Investors Intelligence survey shows that now over 57.2% of respondents are bullish. At the stock market top in 2007 this level reached 60%. It did that this past January too. Sixty-percent is a rare level. Before 2007 the only other time it go that high was right before the 1987 stock market crash. So from a contrarian standpoint everyone is bullish and they are getting so bullish that it is frightening. The masses have formed themselves into a dangerous stock market herd.

That said I do think the stock market can go up for another few weeks here at least. This rally is likely to continue on. Maybe it will end in July or August. But this rally is mesmerizing people and drawing them into the game. People want to make money on this rally. They want picks. If you are looking for a trade you might want to check out the SMH ETF which trades the semiconductor sector. It includes stocks like INTC. Technology stocks as a whole and the SMH had a rough tumble in April and were among the worst sectors in the whole market that month. However,



they based in May and are now rallying. The SMH ETF appears to be pausing now right below its April high. If it does that and breaks out of current resistance at 46.50 I'd expect it to rally up with the rest of the stock market for a few weeks. It's a way to chase the rally and the momentum, but a trade like this must be treated as a trade and not as some sort of investment to hold. It's a hit and run move. You play for a rally and a pop and take your profits and run.

You see txhis is not a good stock market anymore to buy and hold and invest in. No bull market lasts forever. Most of them just last a few years. The last time the stock market went up for five years was in 2007. The next year it crashed. The best time to buy is in the months following a bear market and not years after the start of a bull market. That means that the places to invest in now are in gold and commodities, but no one wants to do that, because TV says it's too dangerous and you need to be in stocks and everyone is bullish on them. People want to do what everyone else is doing and believe what TV tells them to believe. That is what makes the masses the masses.

One of the things I wondered though when walking around The Money Show is the possibility that this might in fact be the last bull market hurrah for a generation. The people there are not going to live forever. A huge segment of their generation got out of stocks for good in the last bear market. The people at the money show are the baby boomer generation, born from 1945 to 1964, that are still left in the market. They are the true believers in the market. The stock market rally has made them believe they are invincible.

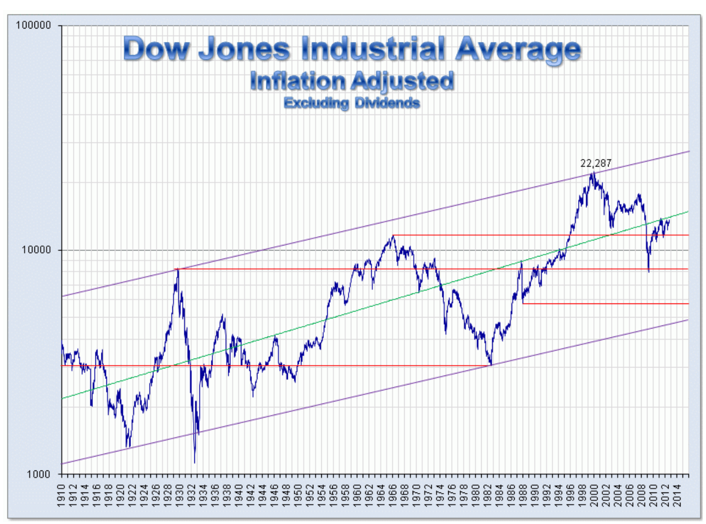
Who are the baby boomers? According to Wikipedia, they are "associated with a rejection or redefinition of traditional values; however, many commentators have disputed the extent of that rejection, noting the widespread continuity of values with older and younger generations. In Europe and North America boomers are widely associated with privilege, as many grew up in a time of widespread government subsidies in post-war housing and education, and increasing affluence. As a group, they were the wealthiest, most active, and most physically fit generation up to that time, and amongst the first to grow up genuinely expecting the world to improve with time. They were also the generation that received peak levels of income, therefore they could reap the benefits of abundant levels of food, apparel, retirement programs, and sometimes even "midlife crisis" products."

They are the age segment of the population with the most money in the stock market. Those of them in the stock market were able to hold and weather the storm in 2000 and 2008. They saw the Federal Reserve take action and print money to make the market go up. Two times they had big paper losses that quickly disappeared a year or two later. They have been trained by their experiences in the market over the past fifteen years to know that markets can drop, but to also believe that if they do drop the Federal Reserve will make them go back up and make them whole. So they really feel like they have no reason to sell now. If the market drops they might feel pain, but they believe it will go away.

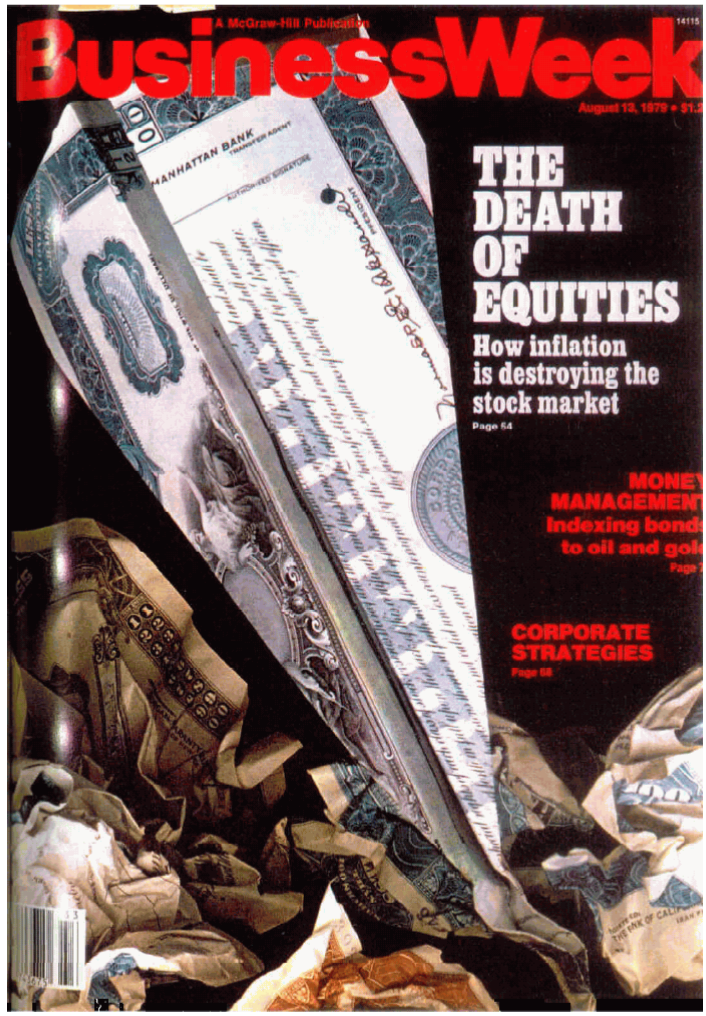
The biggest thing that has trained people to believe in the market isn't necessarily that the stock market has gone up for five years now, but that it quickly recovered after the bear markets of 2000 and 2008. Once those bear markets ended a new bull market started within just a few months. The V bottoms made it so people quickly forgot the pain they felt from the bear attacks.

That doesn't always happen after a bear market. Stage one bases can go on for a year or more. That is what happened in Ireland after it's last bear market. That is what is happening in gold and mining stocks right now. They bottomed almost a year ago, but have been stuck in a stage one base ever since. In long drawn out stage one bases people get more and more negative and disgusted as they go on and sell. By their end there is hardly anyone left in them at all and no one wants to listen to the idea of buying or investing there.

In the 1970's when you look at inflation adjusted returns people did not make their money back for over fifteen years after the market peaked in the late 1960's. People became very bearish on the stock market as a result. That's why very few of the baby boomers in the stock market now got in during the 1970's or 1980's. It took them seeing the market go up for a decade for them to start to get in themselves in the 1990's.



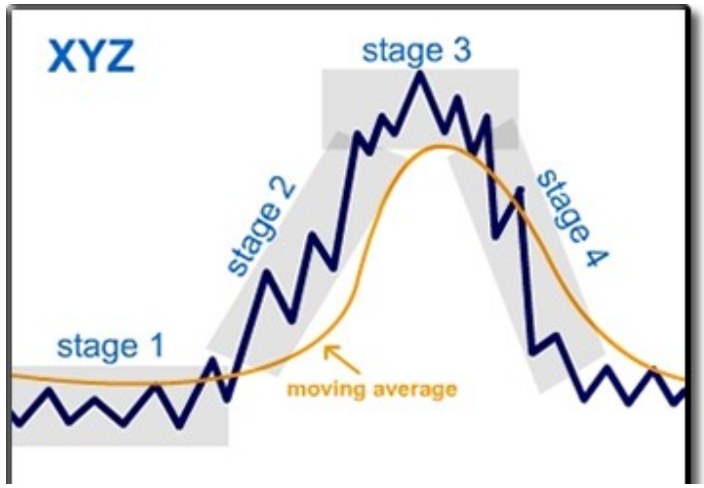
One day another bear market is going to strike the US stock market and every day that goes by brings that day of reckoning closer to reality. I believe that bear market could be very different than the last two we saw. After the last two bear markets the stage one base that following did not last very long. Next time it could last a year or more just like it has done with mining stocks and gold. And if the bear market is associated with high inflation, which I think is probable it could be a very long-time before people actually make the wealth they lose from the bear and inflation back. That would cause many people to give up forever on stocks. It would also make it so that this current bull market could represent the last bull hurrah for the baby boomer generation in the stock market. This could be their last moment of stock market euphoria.

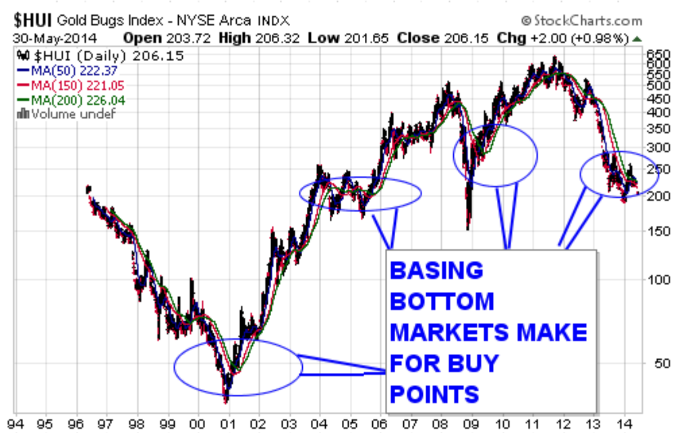


In August 1979 BusinessWeek had a famous cover with the title "The Death of Equities." The cover represented the bearish sentiment in the market at the time. It took another decade for the masses to get confident about stocks again.

I believe the next bear market when it plays out will do the same thing to people. I do not think they will get the V bottom recovery they have come to expect. A longer bear market or much more drawn out stage one base is more likely. The reason why is that in the last two bear markets the Federal Reserve rapidly lowered interest rates to slow them down and create another bull market. Interest rates are already at zero so they won't be able to lower them again like they did last time. All they have left is to print more money again like they have done with their QE program. But if they do that inflation will explode and as I pointed in the last April monthly newsletter inflation booms do not create stock market wealth for people. So this will make the next bear market much different than the last two for people. This is the last bull stock market play for a generation. Most will avoid bull markets outside the US or in commodities so this is it for them.

When I was at the Money Show I saw Ken Fisher speak. He is a guru for the bulls and one of their most important leaders. One of the things he said was that he was in his 60's. He said he thought the bull market was going to go on. He suggested it could go one for years more, but he also gave me the impression that he knew this was his last one for him. Perhaps he is thinking of retirement or other life ventures. He seemed to be thinking ahead.





Were the people listening to him? I don't think so. I think most of them were only focused on the current bull market. The move of the month is all that matters to most people. People do not look at big cycles or big turning points as decision moments.

What you need to do is simple in my opinion. You need to realize that this is no longer a stock market that provides a good investment entry point. It's now a market for trades and traders. It's good for short-term profits and that's it. It's too late in the game to make investments to buy and hold and it's time to be careful.

If you want to invest now you need to look outside the US stock market. You have to look overseas at markets with cheap valuations that are either late in a stage one base or early in a stage two bull market. Argentina and Russia are two that meet those two criteria. And so does of course gold, commodities, and metals and mining stocks.

Gold stocks have been moving down in the past few weeks in the context of being still in a stage one base. They are now near the low end of that base. Once this current move ends I believe they will simply go back up to the top of their base and most likely will break through it to start a new bull market. They appear to me to likely end their current correction and turn up much like they did in December. If I'm right that means the next few weeks will turn into a great time to buy mining stocks. I'm focusing on that. And I'm also watching the US stock market carefully and may take hedges against it when I think its current rally has ended, probably in July.

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