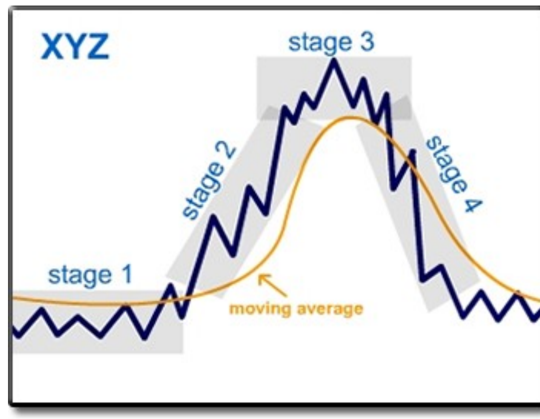
# The Fuel for the Stock Market - Mike Swanson (01/13/13)




On Friday I turned on CNBC right around the time of the closing bell and saw Maria Bartiromo talking to some guests about the US stock market. All of them predicted gains for the year. They admitted that the market was overvalued, but thought due to the fact that people were making no interest on their money in CD's they would eventually move that money into stocks.

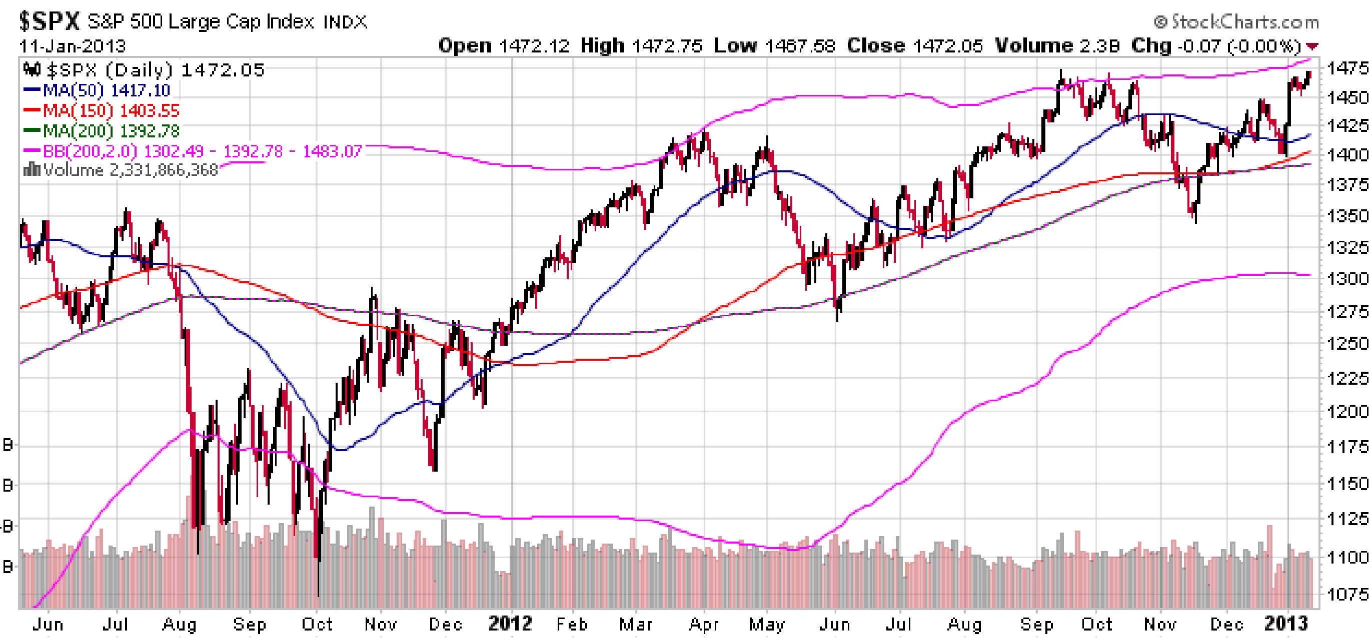
Maria said "there are no alternatives to US equities…so were else is the money going to go." I laughed when I heard that comment. You can't make this stuff up. Well let's see you got Europe which is beating the S&P 500 off of its socks so far and if inflation is the reason for stocks go up you got gold and commodities. After she made her comments one of the guests mentioned commodities, so not everyone is completely oblivious on CNBC, but still almost no one is talking about Europe as a buy on there.

I've talked about Europe a lot the past few months and I know that even most people who get my stuff are more into US stocks than Europe so I thought what I'd do is talk about the US stock market this weekend with you.

As I've said before the US stock market, with its cyclically adjusted P/E over 20 which is well more than twice as high as most European markets, is flat out overvalued. This coming March will also mark the four year anniversary of its current cyclical bull market. As you know most of the gains in a bull market come at the beginning and if a bubble forms at its very end. The middle period, which we are in now for the US stock market simply sees a lot of up and down movement and low volatility. This is why the VIX closed Friday at 13.36.

I'm a little concerned about the market going forward at this point for the next few months, because according to the Investors Intelligence Survey the number of bulls has reached 51%. Big tops have come in the past few years when the bulls have gotten into the 53-55% range so its worrisome to see a reading of 51%.  Plus we have seen the S&P 500 now rally above its fall highs.  In a markets breaking out of bases such moves are exciting, but in more range bound markets like the US market averages are in now that makes more for a time to sell than to buy.

Now I don't think the market has peaked out yet and don't think we are going to go into a bear market once it does.  We also could easily see some money rotate in the short-term into tech stocks to make the Nasdaq and DOW catch up a bit with the S&P 500 as they are off their highs.  Oh, and we got earnings coming out this week, which usually brings excitement.

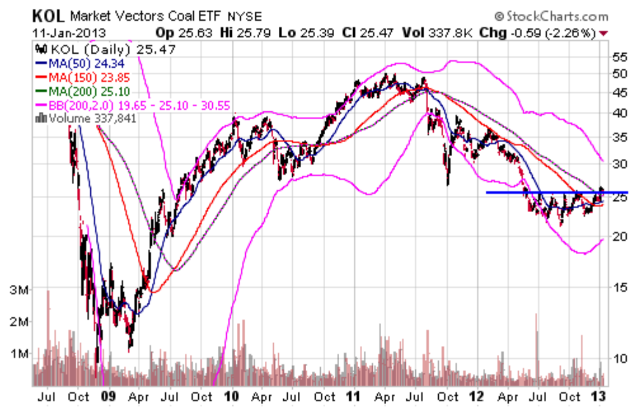



But if the number of bulls keeps going up than in a few weeks we will have to be on guard for a top.  Again I wouldn't worry too much though, because the stock market is less volatile now and the S&P 500 now has good support in the range of its November low and lower 200-day Bollinger Band.  I think we'll probably see it peak out within the next 4-6 weeks and fall to the 1350 area.  Such a drop wouldn't be a big deal and it wouldn't mean the start of a new bear market.

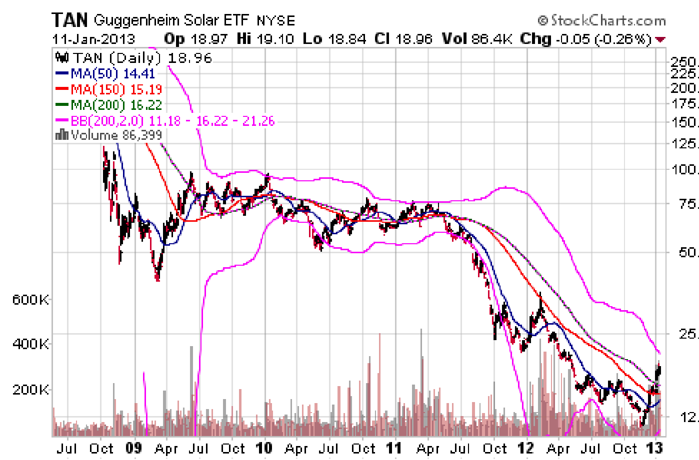
Here is the thing though for this bull market to continue for the rest of the year the CNBC guests are correct in the sense that more money must flow into stocks and with many sectors not only overvalued, but over-bought after going up for several years, that money will have to flow into new sectors.  Buying such sectors is the best way to beat the market if you are too scared to get outside of the US and buy into Europe or com-modities.  Many mutual fund managers can only buy US positions.

In other words for the US stock market to continue we need to see sector rotation occur.  Stocks like Apple have lost their market leadership so we need to see new leaders emerge. I looked through all of the sectors and the ones that look the most likely to do this are banking stocks and energy stocks. Both sectors are full of large cap stocks and heavily weight the S&P 500 so if only they went up and everything else just sat there they alone would be enough to help make the market go a little higher. What is more as a group both sectors are actually under-valued. Both have cyclically adjusted P/E ratios less than 10. Fund managers looking for cheap stocks will eventually put money into them.


Stock such as BAC and GS have broken out of nice bases in the past few weeks while energy stocks continue to go sideways. You can see how the XLF bank stock ETF has broken out of a long base.


Energy stocks as a whole have not broken out like this yet, but they probably will sometime this year. Also subsectors within the energy complex really look exciting to me right now—such as coal stocks and solar stocks. Both of these sectors went into mini-bear declines (the solar sector a bear disaster) as commodities and gold peaked out in 2011. Both now appear to be forming stage one bases and breaking out of them. There are a lot of beaten up stocks in these sectors and some of them pay dividends. The shipping sector (see SEA) looks good too. It is breaking out of a base right now. And I think gold stocks are basing and will breakout this year too.




So the point of all of this is that yes Europe is making nice coin for us, but there are lots of sectors that are in a position to follow


Europe higher and start new bull markets this year. As the year goes on I am sure I will examine the individual stocks in them in great detail for you. Right now I just want to give you an overview of what I'm seeing in the market and where I think new opportunities lay.

Here is what I'm doing. I came into this year about 80% invested in European markets and a dash of gold and gold stocks. I plan on adding more positions to my account once we see a pullback in the US market.

When I do that I'll most likely be looking at the sectors mentioned in this report for new positions. I also will be putting out more reports and videos focusing on them individually.

I've gotten a lot of questions from Canadian members asking about how to find funds in Canada that invest in Europe. Apparently a lot of Canadians are uneasy about buying ETF or ADR's on the US exchanges. I have done some looking and have had a tough time finding funds that invest heavily in Greece, Italy, Ireland, and Spain which have the lowest valuations and are the most attractive. There are some funds that invest in Europe, but most are weighted more heavily in England and Germany. For example check out the Fidelity Europe Fund (NAVPU) which invests in Europe. I really can't find anything that is going to match exactly my portfolio or ETF's. But a fund like this is probably a good way to get exposure to Europe. There are plenty of commodity and mining funds in Canada as Canadians as a whole are more savvy than Americans when it comes to investing in those sectors. But I really don't have an easy answer to how a Canadian can match the ETF's I own.

On Thursday I am going to do a Power Investor live webinar in which I'll go through one of these sectors in detail and look at the individual stocks in it and then answer any of your questions. To register for the webinar go here:

https://attendee.gotowebinar.com/register/3041360560772310016

Disclaimer

WallStreetWindow.com is owned by Timingwallstreet, Inc of which Michael Swanson is President and sole shareholder. Both Swanson and employees and associates of Timingwallstreet, Inc. may have a stock trading position in securities which are mentioned on any of the websites or commentaries published by TimingWallStreet or any of its services and may sell or close such positions at any moment and without warning. At time of publication Swanson owns shares of RLOG. Under no circumstances should the information received from TimingWallStreet represent a recommendation to buy, sell, or hold any security. TimingWallStreet contains the opinions of Swanson and and other financial writers and commentators. Neither Swanson, nor TimingWallstreet, Inc. provide individual investment advice and will not advise you personally concerning the nature, potential, value, or of any particular stock or investment strategy. To the extent that any of the information contained on any TimingWallStreet publications may be deemed investment advice, such information is impersonal and not tailored to the investment and stock trading needs of any specific person. Past results of TimingWallStreet, Michael Swanson or other financial authors are not necessarily indicative of future performance.

TimingWallStreet does not represent the accuracy nor does it warranty the accuracy, completeness or timeliness of the statements published on its web sites, its email alerts, podcats, or other media. The information provided should therefore be used as a basis for continued, independent research into a security referenced on TimingWallStreet so that the reader forms his or her own opinion regarding any investment in a security published on any TimingWallStreet of media outlets or services. The reader therefore agrees that he or she alone bears complete responsibility for their own stock trading, investment research and decisions. We are not and do not represent ourselves to be a registered investment adviser or advisory firm or company. You should consult a qualified financial advisor or stock broker before making any investment decision and to help you evaluate any information you may receive from TimingWallstreet.