WallStreetWindow PowerInvestor

All That Matters Now Is The Bull - Mike Swanson (05/12/13)

Alan Abelson died at 87 years old today. He was the editor of Barrons and wrote the weekly "Up and Down Wall Street" article in which he provided a contrarian view against the Federal Reserve and Wall Street shenanigans. He called the bubbles of 2000 and warned over and over again against the disaster Ben Bernanke created before the stock market crash in 2008.

His warnings couldn't stop policy makers such as Ben Bernanke from engaging in policies that wrecked the economy, but they were entertaining fodder for readers like me.

It's kinda ironic that he just passed away, because last week an internal Fed study given to Bernanke and his fellow Federal Reserve board members warned them that their zero interest rate and quantitative easing policies are again creating dangerous instabilities in the financial system and new bubbles that will eventually lead to new disasters if they continue to grow.

What is ironic is that CNBC didn't report on this. FOX ignored the story and the Wall Street Journal didn't give it a line of print. The American media doesn't care and Ben Bernanke won't change his policies nor will President Obama tell him to do so, because he needs them to finance his giant deficits.

I made a post about this on my blog last week and hardly anyone commented on it. I got one email about it and it was from someone angry that I posted it—saying that I shouldn't doubt the stock market and if I'm so smart then I should short it.

No one cares. In a few years this bond bubble will bust and everything will go down the toiler again, but no one cares. If feel like its 2005 or 2006 all over again.

The stock market is going up and there is no sign that the bull market is over - I think it will continue for another year or two—and that is all people care about.

The American stock market is overvalued now, but that doesn't matter. Turn on CNBC and you'll hear analysts and fund managers tell you why stocks are "cheap now." They'll say since interest rates are so low and bonds yield nothing stocks are cheap. They never ask what will happen when the day comes that bonds go into a bear market and bond yields rise.

All that matters right now is that the stock market is going up. Granted people are not reading this, because they want to hear someone express doubts about the wisdom of the Fed or the stock market when both are helping them making money in their investments, but to help them make money.

Ok. When it comes to the US stock market it has gone up now for three years and is trading at a cyclically adjusted P/E of 23 now. You want to invest by buying at the start of bull markets and not buying into them in its fifth year. You can trade in and out and I'll give you some trading ideas in a moment, but if you want to invest you want to buy into markets that have ended bear markets and have become cheap.

That's why I invested in European markets last year, am watching Argentina now, and am planning to buy into gold and silver stocks in the next few weeks. Europe ended a bear market last year and many European markets such as Greece, Ireland, Italy, and Spain, are still at super cheap valuations. Unfortunately 99% of Americans only want to buy US stocks and convince themselves that the rest of the world is scary and dangerous.

Over the past few months the US stock market has made new highs while gold crashed and for the first few months of the year the US stock market performed better than most markets in the world, which went through a little correction in February and March. This has caused most people to just fall asleep in complacency, thinking that all they need to do is be in US stocks to do well and not do any work or much thinking.

However, in my view we are going to see leadership in the global markets shift out of the US stock market and into other world markets, such as Europe, Ireland, Italy and so forth. The reason why is that the US stock market is overvalued now and as new institutional money flows into the world markets it will start to search out markets that are truly cheap on a valuation level to invest in.

GWL is an ETF that owns the largest stocks outside of the United States. It's a way to trade or track world markets. It is breaking out of highs made in 2010. It also has underperformed the S&P 500 since 2009 as you can see from its falling relative strength line. For the past year though that relative strength line has been going sideways and is getting into a position to break out of its downtrend line later this year.

Of course some individual markets are already doing better than the S&P 500 and they don't all trade exactly together, but as a whole this suggests that the US stock market is going to end up lagging most world markets by the end of this year.

That doesn't mean the US stock market is going to crash or go into a bear market, but that other markets will simply go up more than it will. In fact what I think we will likely see happen is the US stock market just kinda run out of steam and float around for a year or two in a low volatility environment, neither having big corrections or giant rallies for sometime. That's typical in a mature bull market. This is the sort of thing that happened in 1994 and from 2004 to 2006.

That sort of action makes for an up and down traders market. Investors that want to buy new positions and hold are best to look elsewhere. That's what I'm focused on with my own money. In fact I didn't do a single trade last month and just held on to positions that I already bought. They went up so that was fun. Right now I'm simply watching the gold and silver markets with the plan to buy into them after they base for a few more weeks.

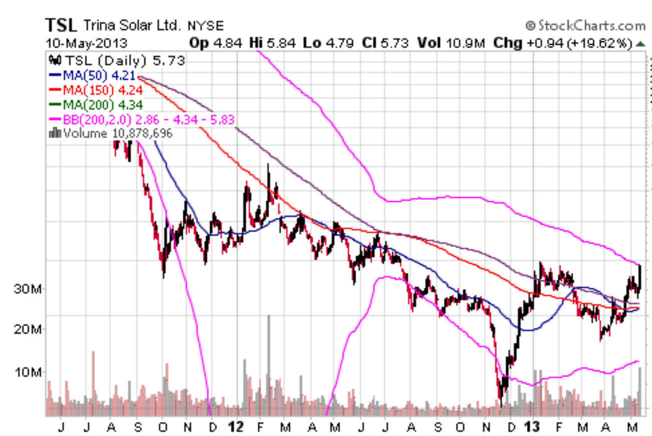
Many people though cannot wait for things to develop and must trade the markets. The best way to do short-term trades using daily charts is to look for stocks that are pausing and consolidating and then buying as they breakout for a quick trade. Here are a few in a position to do that.

XRSC is a small cap stock that makes software for trucking companies. It doubled in price earlier this year and has been going sideways for the past few months with resistance at $2.00. If it can clear $2.00 it can make another big jump up like it did earlier this year.

Radioshack(RSH) also jumped up earlier this year and is pausing with resistance at $4.00. If it can pause a little bit more and then breakout it should make for a nice trade.

XRM has been one of the top gaining stocks this year. People love to chase momentum and it provides them with an opportunity to do so. It has paused at $10.00. If it can pause for a few weeks it can provide a good trade on another breakout.

The solar sector is in the process of breaking out of a stage one base. Those sort of breakouts provide a better opportunity to hold than trades on second breakouts do. Stocks in the sector include FSLR, STP, TSL.



TSL is actually the most interesting stock in the group right now as it looks ready to pause at the $6.00 area.

Again I'm happy to wait a few weeks before making new buys myself and will do a big overview of the mining and commodity sector ahead of doing that.

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