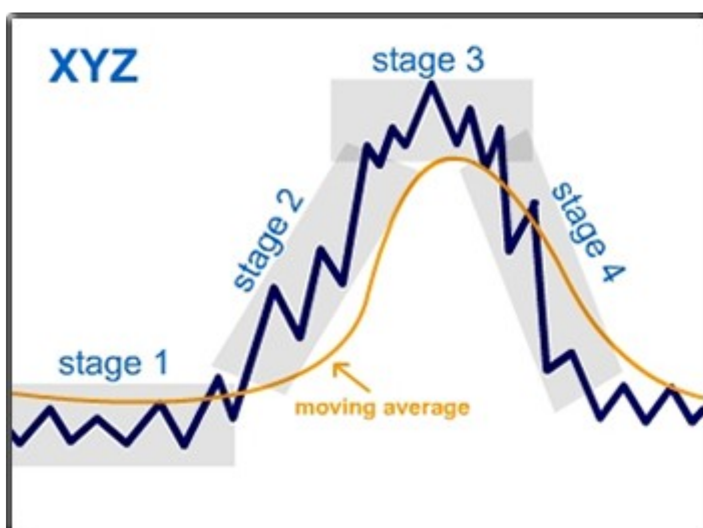
WallStreetWindow PowerInvestor

When Do You Buy Stocks? —Mike Swanson (11/10/13)

When do you buy stocks? "When I think they will go up!," you probably say. Yep. But when is that? For most people the answer is when TV tells them they are going up. Or when they see them go up for awhile and then they get convinced that they are going to go up more. In the end most people chase stocks and get trapped buying near a top. They buy AFTER rallies occur. In reality the best time to buy stocks is after a correction plays out. A dip back down brings prices down to a temporary low that makes for a great buy point. But to do something like that means having an understanding of market trends and to be able to identify them.

Most people don't know anything at all when it comes to investing. There are two important trends you need to be aware of. You need to know the long-term trend of the market and the short-term trend. Simply put are you in a bear market or a bull market?

That's where stage analysis comes in. Take a look at the picture on this page. The moving average there is the 150 and 200-day moving average. The US stock market has been in a four year long bull market now even since 2009. Most of the markets in Europe are in a one year bull market. The stock market in Argentina just started a new bull market by breaking out of a stage one base a few months ago. That means going forward there is more upside in the Argentina stock market and European markets than there is in the S&P 500, although you WILL NEVER hear that on CNBC. Gold and commodities began a vicious bear market in 2011 that came to an end this past summer. Now they are in a stage one base that precedes a new bull market. To complete this basing phase the HUI gold stock index needs to go through the 280-290 resistance level. Then it will be off to the races for years, until it does that though it is going to continue to go up and



down to make people nervous and shake them out. In the past mining stocks have had a habit of making a bear market bottom and then immediately taking off into a new bull market. This is unusual for most markets to do, but not so much for mining stocks as they are so volatile.

This time they are doing what most markets do and going through the stage one basing phase. It happens in individual stock sectors too. We saw shipping stocks for instance do this last year. This time a year ago they fell down a bit in a false breakdown one last time and then took off into a new bull market. It looks to me at this point that we will see the HUI make a move back up to its recent highs before this year is over and breakout into a new bull market next year.

That means going forward over the next few years I believe we'll see the most gains in order coming from mining stocks and commodities, Argentina, Europe, and then lastly in the S&P 500 and the US stock market. This performance trend in regards to European markets and Argentina has become obvious the past few months as so many stocks trading in markets outside the United States are starting to soar while US investors obsess over the next gyration in Google and Apple. This is all because the US is already four years into a bull market while commodities while these other markets are in younger bull markets, so there is more energy and pep. You want to invest AFTER bear markets and not four years into one when things have already gone to high prices and even higher valuations.

Now that doesn't mean the US stock market is about to enter a bear market. When it comes to the US stock market right now the most important thing you need to know is that it is in a bull market and THERE IS NO SIGN THAT IT IS OVER. Before bear markets end you see market leadership narrow so that only a few stocks and sectors are still going up and driving the bull market, you'll see the advance/decline line drop for months, and almost always you will see interest rates rise for a period of time. None of these things are happening.

So the big trend is up for the US stock market. There is no reason to think a bear market is about to start or to be scared. People got scared over the Fed "tapering" HOAX and worried again when the government shut down. Now that those things went and passed people are excited again with the market rallying. Stock market players are a neurotic bunch. They get scared at bottoms when they should be buying and only get excited after a market rallies, then they get not so much greedy, but worried about missing out on more gains, so they buy to chase.

And that brings us to the more short-term trend and that is the daily trend. You want to buy after corrections and when you are at a bottom and use peaks to sell some stuff you don't want to hold anymore to free up some money for the next bottom to use—of course you cannot time these things to exact perfection with any consistency, but you just have to make some small general changes from time to time to manage things probably.

With the short-term trend I'm talking about the temporary dips and stock market rallies that take place for several weeks at a time. So since the start of October we have been seeing the stock market go straight up over the course of about four weeks. Before that it went down for about four weeks. So what is next?

At this point I do not think it makes sense to buy any new stocks. Instead you should wait for a pullback or a period of a few weeks of consolidation for a good entry point. Now the market could go up to a new high, but even if it were to do that the upside potential is now fairly limited over the next few weeks. The most important thing is to be in a mental position to be able to buy whenever the next great entry point comes. If you were to do a lot of buying now then you probably wouldn't be able to buy later, because if there is a dip you'd probably sell out near a low and then be frozen unable to buy at a good time.

Also rallies often end when sentiment gets overly bullish. What happens is that it takes more buying to make the market continue to go up. People tend to be skeptical and cautious on the market UNTIL AFTER THEY BUY. Then they rationalize their buying by convincing themselves that the market is going to keep going up. They declare themselves to be bullish on the market.

So what happens is that investment survey's tend to display extreme bullishness when the market is at or near a top and a lot of bearishness at a bottom. Just as people buy at a top they sell at a bottom and then turn negative. Few learn anything from their experiences in the stock market and just repeat this same cycle over and over again.

I subscribe to the weekly Investors Intelligence survey to get sentiment data on the stock market. You can get this information as soon as its released at investorsintelligence.com. Investors Business Daily also publishes it. Last week's numbers showed a huge jump in the number of people now bullish on the stock market to over 55% while the number of people bearish have now declined to 15.6%. This is the same number of bulls that have appeared at temporary tops for the US stock market that led to 5-10% corrections in the past few years— the last time being May.

What is worse you can create a sentiment ratio by dividing the number of bulls by the number of bears. This ratio has not been this lopsided since the market topped out a few weeks before the "flash crash" of 2011.

This survey is not an exact stock market timing tool. It cannot tell you the exact day the stock market makes a peak, but it is flashing a huge warning sign about the durability of the current rally.

Last year the stock market fell in November and the first week of December. It could easily do something like that again even if it were to go up a little bit more this week. Often peaks take a few weeks to be put in with some back and forth action until the market has a bigger drop.

Now I'm not trying to suggest a crash is coming. I just think a natural pullback before this year is over is very likely now. Right now the S&P 500 has support at 1750. This is the points of its low set on November 1 and last week on November 7. If it closes below that point than I think we'll likely see a drop down to its 150-day moving average, which is currently at the 1660 level. Moves like that are normal in bull markets and make for great entry points to buy stocks in the strongest sectors and strongest markets.

At the same time short-term resistance for the S&P 500 is now at 1775. A close above that would probably bring a short-lived final rally trap up to the 1780-1790 area if it were to occur. And if the S&P 500 cannot do that this week then it is going to head through recent support and head lower this month.

The important thing is what should you do? I took a short-position in my account last week by buying the S&P 500 SDS short ETF. I am doing this though just to put a partial hedge on my positions.

First I do not think you should try to trade the market on the short-side with the idea of making quick profits. The most important thing for you to do no matter what you do is to be in a position to buy stocks if a correction or pause in these markets occurs, because I see some incredible stock and opportunities lining up. We got mining stocks and commodities of course that should start a bull market in a few months. We also have stocks in Argentina, Europe, and even a few US stocks that have low PEG ratios, meaning they are cheap from a valuation standpoint and have great upside, and are consolidating right now. They are likely to continue sideways if the stock market dips, probably even if it doesn't, and provide a good buy point in a few weeks. They provide a great opportunity for wonderful low risk and high reward entry points. That's how you make good trades. You don't chase. You buy right.

The most important thing for you to do is to be able to take advantage of that. Doing a bunch of flip the coin short-term trades would likely distract you from that. Trying to short in a bull market is something likely to do that too. Patience is key now.

I think after you get market rallies like this at some point it is best to look at your positions and see if there is anything you want to sell in order to raise cash for later. Maybe there are stocks you do not like anymore.

And its good to take a few profits from time to time. Instead of doing that though I just bought the SDS short ETF as a temporary hedge against my positions. I don't really want to sell anything, but I would like to lock in some gains in case the market does drop. So I put on a hedge. If the market goes up and breaks out I might get rid of it, but if it breaks support and goes lower I'll have helped locked in a few of my gains through this position. If I was in total cash I would not buy SDS myself or try to short for some short-term trade.

Right now the most important thing I'm doing is getting ready to buy some new positions in a few weeks. I'm making a list of stocks that are likely to continue to pause here and breakout after Thanksgiving and just rocket higher. I'm looking for stocks that can make not just great end of the year trades, but can become solid investments in the years to come. In other words I'm making a watchlist of low PEG stocks that I may buy in a few weeks. And you can use it too to help plan any future buying you may want to do also.

Right now I'm most interested in buying some new positions in stocks in Argentina and from the commodity and metals and mining sectors. The last two stocks I bought were Argentina stocks YPF and TGS. The other stocks I'm watching in Argentina now are EDN, GGAL, PAM, BMA, and PZE. These stocks have extremely low valuations and remind me of some of the Greek stocks last year.

I looked through all of the stocks from all markets available to us on one of the US stock exchanges with PEG ratios less than 0.50. The stocks of American companies that look interesting include RSH, JRCC, TIVO, SIGI, PKBE, CG, TDW, QCRH, UAL, ATW and IIIN. These are all stocks with high earnings growth, low stock valuations, and whose shares have been going sideways in a consolidation pattern. They are building a base to launch a new rally off of.

Stocks that trade on the Toronto stock exchange that also are doing this and look interesting to me include P, SVM, RTK, and LNR. ADR's—these are stock shares of companies outside the United States trading in the US—that I'm watching include MTL, CAS, ANR, REGI, NMR, TSL, ZX, TM, ORAN, and ANFI. Here are some of the more interesting charts from this bunch:


UAL United Continental Holdings Inc. NYSE
8-Nov-2013 Op 33.64 Hi 35.62 Lo 33.61 Cl 35.36 Vol 7.1M Chg +1.37 (+4.03%)
MANY AIRLINE STOCKS HAVE DONE WELL THIS YEAR, UAL HAS A LOW PEG AND IS CONSOLIDATING NOW


P.TO Primero Mining Corp. TSE
8-Nov-2013 Op 5.90 Hi 6.07 Lo 5.82 Cl 6.03 Vol 526.1K Chg +0.05 (+0.84%)
P HAS ONE OF THE MOST INTERESTING CHARTS NOW FOR A MINING STOCK - IT IS OUTPERFORMING THE HUI AND GDX


ORAN Orange NYSE
8-Nov-2013 Op 12.86 Hi 12.98 Lo 12.79 Cl 12.98 Vol 531.6K Chg +0.17 (+1.33%)
AFTER SURGING 40% SINCE AUGUST - FRENCH TELECOM STOCK ORAN HAS FINALLY PULLED BACK


PZE Petrobras Argentina S.A. NYSE
8-Nov-2013 Op 6.34 Hi 6.46 Lo 6.34 Cl 6.42 Vol 138.3K Chg +0.02 (+0.31%)
PZE IS ANOTHER ARGENTINA STOCK I'M WATCHING NOW - I'M WATCHING THEM ALL CLOSELY


IIIN Insteel Industries, Inc. Nasdaq GM
8-Nov-2013 Op 16.23 Hi 16.60 Lo 16.18 Cl 16.46 Vol 37.0K Chg +0.24 (+1.48%)
IIIN IS AN INTERESTING US ALOY COMPANY WITH A LOW P/E AND PEG WORTH WATCHING


TSL Trina Solar Ltd. NYSE
8-Nov-2013 Op 15.26 Hi 15.95 Lo 14.80 Cl 15.73 Vol 3.8M Chg +0.73 (+4.87%)
SOLAR STOCKS HAVE BEEN ON FIRE PAST FEW MONTHS.. TSL IS FINALLY PAUSING HERE.


ATW Atwood Oceanics NYSE
8-Nov-2013 Op 53.47 Hi 55.45 Lo 53.30 Cl 55.40 Vol 961.2K Chg +1.78 (+3.32%)
ATWOOD IS A SOLID OIL RIG COMPANY... COMMODITY STOCKS PAUSING... WHERE WILL THEY GO WHEN THEY BREAKOUT OVER THE NEXT FEW YEARS?


RTK.TO Artek Exploration Ltd. TSE
8-Nov-2013 Op 3.32 Hi 3.39 Lo 3.28 Cl 3.33 Vol 1.3M Chg +0.01 (+0.30%)
RTK IS AN EMERGING MINING STOCK TRADING IN CANADA

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