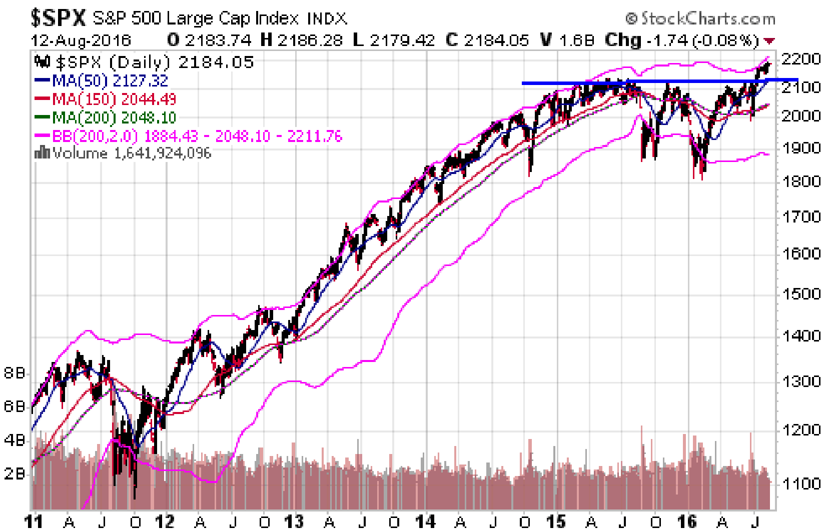
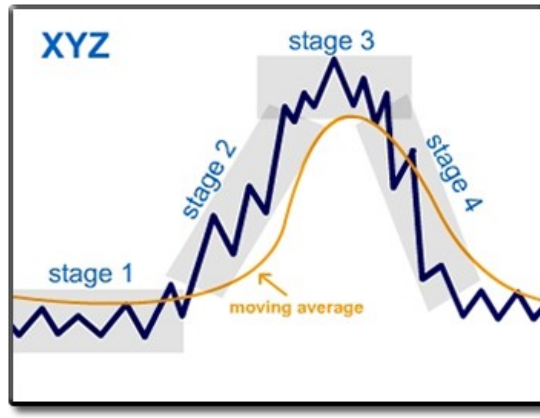
WallStreetWindow PowerInvestor

Lessons from the 1929 Stock Market Crash —Mike Swanson (08/14/2016)





It has taken over two years for the market to finally go through a previous high and stay above that level for more than three weeks.

As of Friday's close the S&P 500 is up 10.99% for the past 36 months. So people have gone through big dips and several big rallies to make only 10.99% over all of this time. Of course those fully invested in the stock market and who own no gold and gold stocks have simply missed out on a tremendous run as the GDX is up over 225% year to date. This makes it very hard for me to treat stock market bubble bulls who claim the only thing you can do is stay fully invested in the S&P 500 and traditional stock market funds very seriously.

But right now those people are pumping their charts and right now almost no one

"....right now almost no one thinks that even a stock market pullback can happen."

STAGE ANALYSIS OF KEY MARKETS

S&P 500

Long-term: Stage Three/Four Bear Market

Short-term: Low volatility likely a sign of another market top coming.

GOLD

Gold Long-term: Stage Two Bull Market

Short-term: Another week of more gains.

DBA ETF

Long-term: Stage Two Begins

Short-term: DBA paused for an entry point.

thinks that even a stock market pullback can happen again. Ron Insana said that on a CNBC.COM blog post that he made and many people have been saying that on the television box and all over the internet.

Last week I made note that with gold by the end of 2015 almost no one thought it would go up again and even gold bulls were giving up on a new bull market. Now with the stock market sentiment is just the opposite with no one thinking it can pullback again.

A year ago in August many people were expecting a big breakout and massive stock market rally to take place and instead the stock market turned down into the Fall, bounced into the end of the year, and then dumped in January. And now 12 months later it finally has done the break-out so many were hoping for a year ago and instead of beginning a great run with a great volume expansion and the emergence of a new sector lead-ership to take the market higher the stock market has really fizzled out and done nothing. Take a look at the 20-day Bollinger Bands and the width

indicator, because they are now doing something I have never seen before. Now a few days ago I was thinking this to myself as the Bollinger Band width indicator got closer together than I had ever seen before. This happens after the price volatility in a market or stock becomes very low and almost always serves as a prelude to a new big move that will last at least a few weeks.

Last year this happened in August right before the marketed turned lower and dropped hard for a mini-flash crash. Now instead of immediately making a big move last week once these bands got extremely low the stock market simply sat there for three more days doing nothing on thin volume.

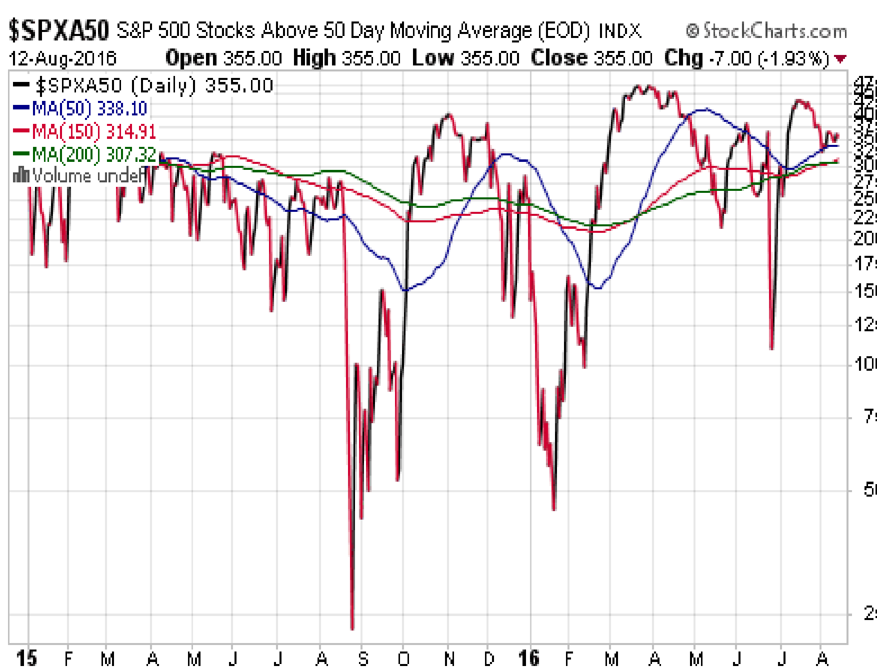
Now I NEVER have seen that happen in the stock market and have not even seen gold or gold stocks ever do something like this either.

In fact the only time I see something do that is when I see a stock that has gotten bought out so it simply no longer is really being traded or with some penny stock that is getting no attention and no buyers or sellers. In other words you see it with what are basically stocks that are on the market, but are not really being traded by anyone.

So the big breakout everyone was looking for has brought us a stock market that is now trading like it is a dead money penny stock. What is happening is very simple. There is no real trading going on in the market this August, but instead the trading robots have totally taken over.

I thought that was happening watching the market last August before the drop started, but the way it is trading now is even more extreme than it was then. July in fact marked the single smallest number of insider buys for companies since 1998 for any 30-day period.

At the same time the internals of the market are dripping down a bit. You can see that if you look at how many new 52-week highs are being made in any given day as that number keeps dropping.



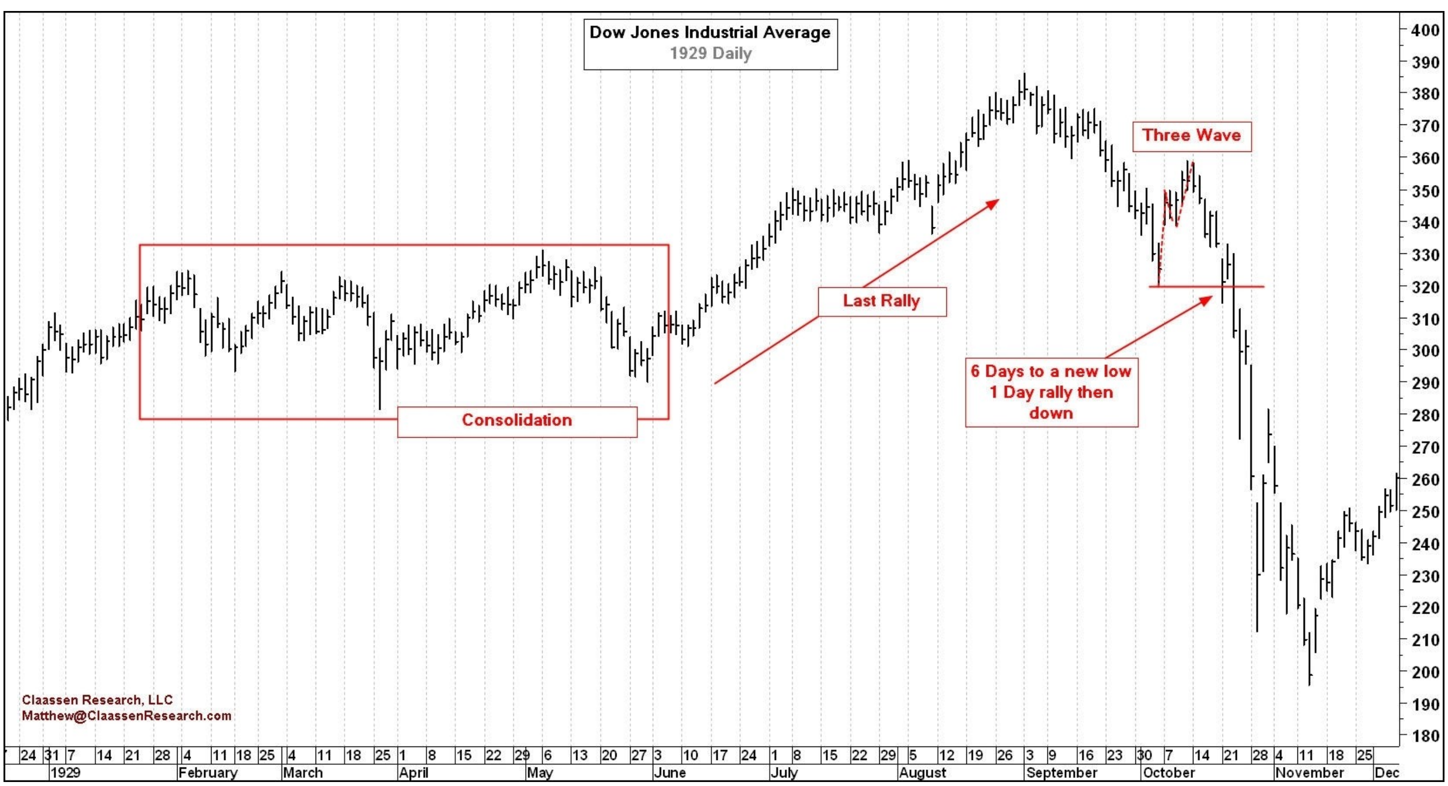
And it is also visible with the percentage of stocks above their moving average indicators that have not confirmed the move to new highs this August. You can see how the number of stocks above their 50-day moving averages on the S&P 500 has been falling this month for example.

This suggests to me that even though few now are even thinking that the stock market rally is going to end this month that it will in fact do just that.

It could do it Monday or it could do it on the last day of the month. I cannot predict the exact moment it will happen, but it looks like it will. I looked through all of the stocks in the DOW and in the S&P 500 today and only a few are actually on their highs and many big cap ones are trading on recent support levels. I have some of the more interesting charts at the end of this report.

Once the rally ends of course a new downtrend will start that could easily lead to a new bear market and at the very least lead to another violent drop this Fall. Just as the gold bull market began when no one could believe it could happen anymore a new stock bear market can begin when hardly anyone thinks the market can even drop again!

I have been looking at what the stock market did in 1929 and want to draw a few observations about it for you that we can learn from. Notice that the market topped in August and went down in September for a weak bounce and then crashed. Take note of the short-lived dip around August 5th right before the finally last rally. That dip looks exactly like the BREXIT drop that took place we saw this year at the end of June.   Notice the dip in March. That was a huge volume dip that took place and it is after that dip that famous smart money people such as Joseph Kennedy and



Jesse Livermore sold and began to short the stock market. They were shorting in the summer before the ultimate high.

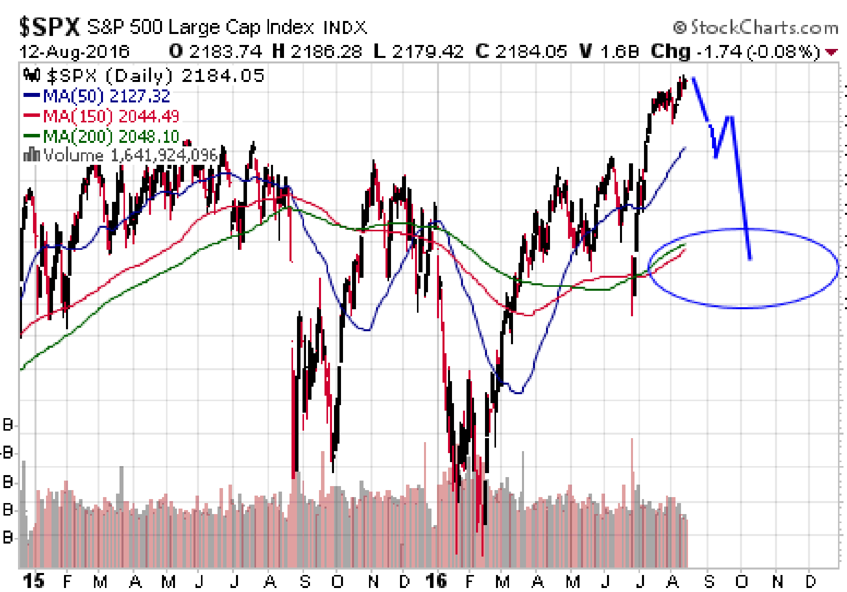
The famous market player Bernard Baruch also sold in March. He did not short though, but he reportedly held a big pre-crash party at his Manhattan apartment with 50 people in attendance including Winston Churchill. Baruch was a political insider and was sort of like the George Soros of his day. He made a fortune at the turn of the century trading commodities and became a presidential advisor during World War I.

Stock markets around the world were actually in decline during the summer of 1929 while the US stock market remained the only stock market still going up strong. The same is the case this year.

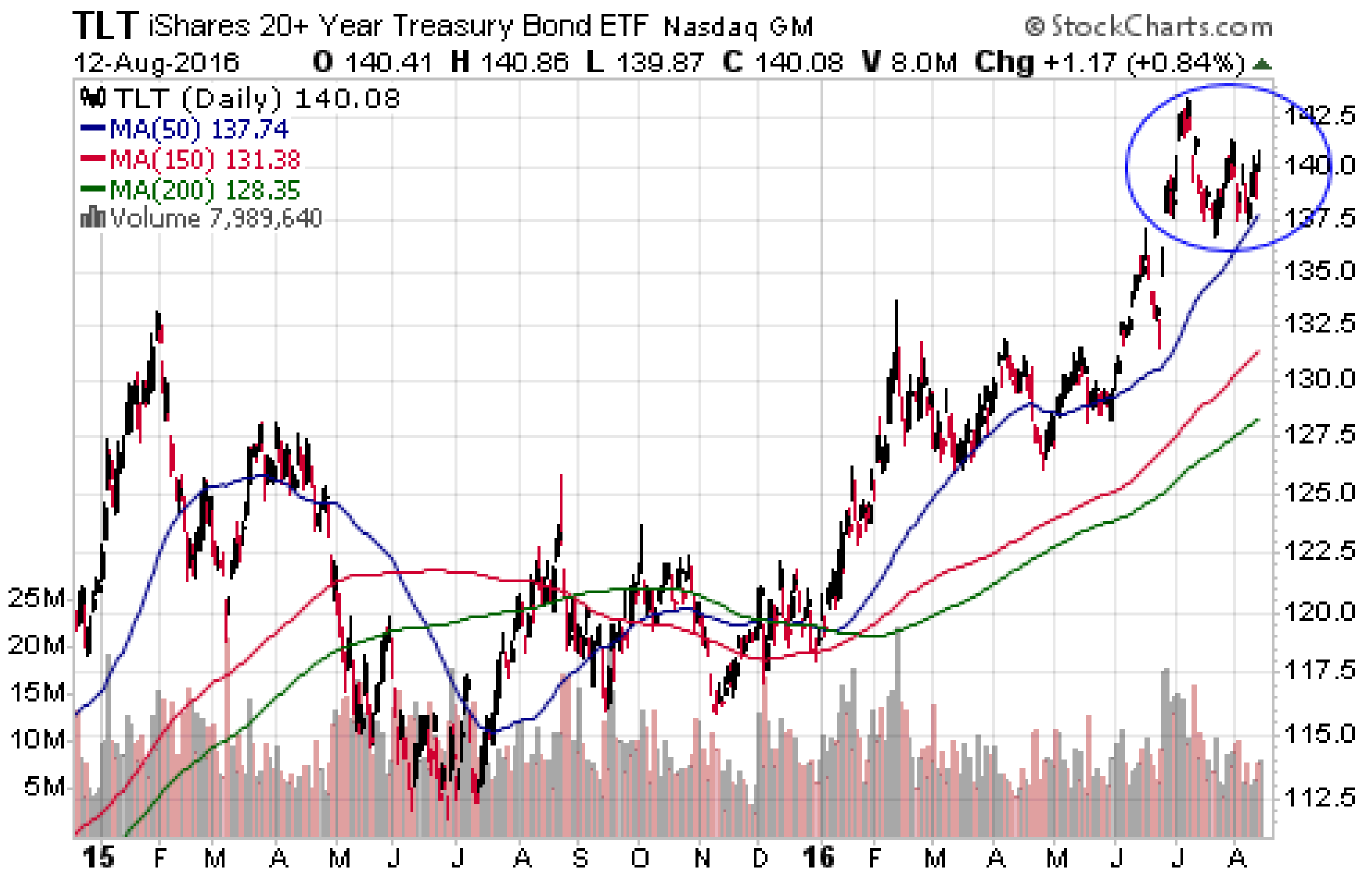
In 1929 US economic data actually was weak that summer, but stock market bulls simply said that the stock market would keep going up forever anyway. And this year the Fed has proven incapable of raising interest rates as the predictions it made last year for economic GDP growth have failed to come true. But today's stock market bubble bulls say the stock market cannot drop again.

In 1929 the market made a final high in August on thin volume and poor internals and topped. And so this August the stock market made a new high and began to trade as if it were a dead penny stock.

The 1987 stock market crash and 1937 stock market chart has a similar topping formation to what happened in 1929. After all of the tops of these three years the market averages fell to their 150 and 200-day moving averages and had a weak bounce and then went dramatically lower. In 1987 it of course crashed, but in 1937 instead of crashing in ten days it went lower for months on end. It made a similar drop in the Fall of 2000 and after the market topped in the summer of 2008.



So I think once the market turns down that it will go to the long-term moving averages, which is in the 2025 area of the S&P 500 after which we should see a weak bounce or at least see the market hold up for a few weeks like it is now. If that happens then you will know by then that the stock market is doomed,



because you will know what is happening to it. You will know that it topped, because in August the buying exhausted itself, and that it is now in a full blown bear phase.

You do not have to fear losing money overnight in some instant crash that takes you by surprise as long as you keep your eyes on what the market does going forward, because as long as you pay attention you will have time to make adjustments if you need to do so.

Personally I am long gold, gold stocks, DBA, and short the market with roughly 40% of my account like the model rebalancing portfolio is so I really do not need to make any changes at all.

I'm using a very simple money management strategy that I have talked many times in the past two years, but most people have no strategy at all except put half of their money into the US stock market and half in bonds and hope it all goes up for them. And those people are going to be in big trouble in the next few years in my opinion.

Historically bonds go up when stocks go down. They are likely to do that over the next few months. Right now the TLT bond ETF is pausing and appears to be consolidating for another breakout. If the economy was great and the stock market were to go up like people think than TLT should be topping here. But if it breaks out that will be a sign that people are going even more into safety in fear of a stock market breakdown.

There is a big possibility that TLT is going to make a climatic final blow-off top to coincide with some sort of stock market decline in the coming months.

If that happens then in a year or two we could easily see TLT go into a bear market after such a top at the same time that the stock market declines. A bear market in stocks and bonds at the same time would devastate most American investors, because they only position themselves in both. This is why gold is not just a way to make money in something that is in a new bull market, but will become a necessary investment for people.

Ok now two more observations I want to make. First of all I have seen August months in the past which led to stock market drops. That happened in August of last year of course, but also in 2014, 2008, and in 2000.

During all of those August turning points volume and liquidity in the market vanished. In 2014 and 2000 the stock market actually managed to go up that August just about every single day and topped at the end of the month. In 2008 it had a weak rally that ended before the end of that month. And in 2015 it just fizzled out and dumped. The lack of liquidity did not just mean a lack of real buying, but no real selling too. People just were sitting there and watching. But the fact that few were selling also enabled the market to go up. The market didn’t do that last week, which is actually another big negative sign.

The 20-day Bollinger Bands got extremely narrow to one another and instead of breaking out the stock market turned into a dead penny stock. So unless it goes up within the next few days I take that as a sign that it is going to turn down dramatically before this month is over and at any moment!

Secondly after something has gone on for a long-time people always have a tendency to think that current conditions will last forever. One argument you will hear everyday now on CNBC is that because there is no recession right now that the stock market is fine.

These people seem to forget that the stock market tends to fall BEFORE recessions start. And again if you go back to 1929 the US economy did not begin to decline for almost a year after the peak of 1929. After the big crash there was a big rally that ended in the spring of 1930. It is after that rally ended that the Great Depression began. That bear market cycle took three years to play out. The 2008 market crash really took two and a half years to play out. The 2000 bear market ended in 2003. The last gold stocks bear market really started in 2012 and ended last year. So it lasted over four years.

This last bull market in the US stock market began in 2009 and during that bull cycle the market went straight up at times for a very long-time without every pulling back. We are now witnessing a wacky extreme bubble in the bond market. If that ever begins to unwind the stock market bear market that will materialize as a result will take years to play out too.

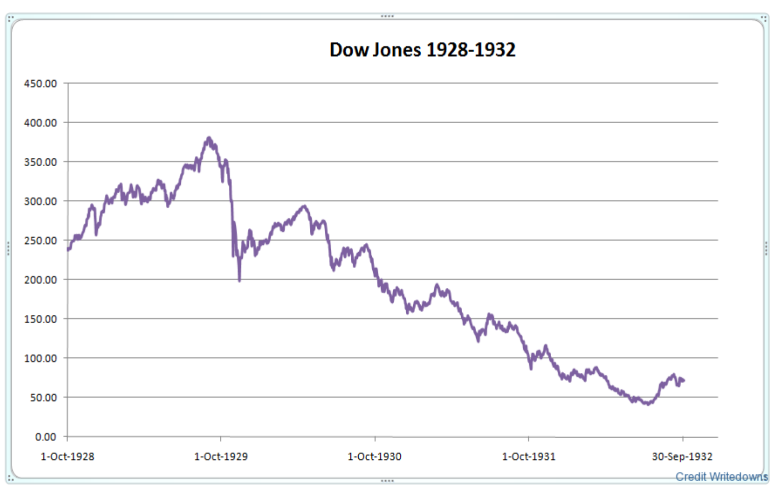
People talk like negative interest rates are here forever, but in the past few weeks we have seen some big movements in the Japanese bond markets and what could be potential topping formations in several European bond markets. TLT and the US bond market are simply the strongest bond markets now to act as final global bond market leaders. So when they top it's all over.

Unlike 2008 this is not going to be a crisis focused on US real estate or internet stocks like in 1999, but will be a global debt crisis impacting not just one nation, but many. People are looking for a reason for a bear market and for the new gold bull market. Well that could be it.

No one thought a Great Depression was coming in the summer of 1929 except people like Jesse Livermore, Joseph Kennedy, and Bernard Baruch and his friends. Today CNBC runs nonstop bull market cheerleading stories that discourage people from simply diversifying and putting a portion of their assets into gold. That one simple move could do so much to protect the masses of Americans from economic destruction, but CNBC talking heads don't care about anything, but cheerleading the S&P 500 no matter what the valuations are, no matter what the economic news is, or even what the technical charts suggest.

We have seen bear markets since 2009 that have been relentless on the downside. Gold stocks did that and so have oil stocks and so did the Greek stock market.

This is how the bear markets have been. So there is no reason why the US stock market's next bear market cycle cannot play out like that too. In that case the 1929-1932 bear market becomes a model to keep in mind and learn from. Here are some charts of note for this week:

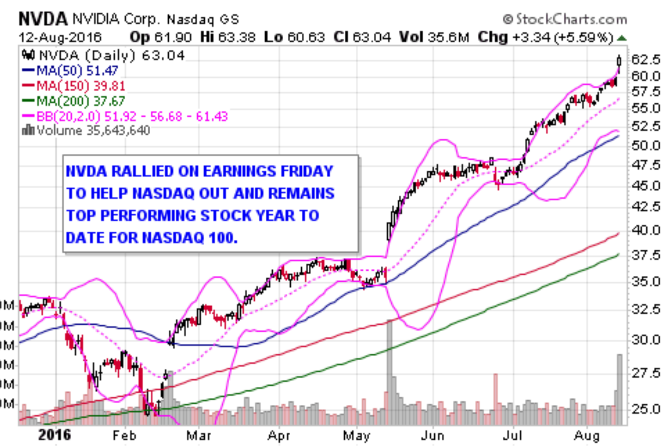



GDX:GLD VanEck Vectors Gold Miners ETF/SPDR Gold Shares NYSE © StockCharts.com
12-Aug-2016 Op 0.249 Hi 0.250 Lo 0.243 Cl 0.244 Vol 3 Chg +0.001 (+0.24%)
GDX:GLD (Daily) 0.244
MA(50) 0.225
MA(150) 0.189
MA(200) 0.175
Volume 3
GDX / GLD RELATIVE STRENGTH RATIO HIT A NEW HIGH FRIDAY MAKING IT IMPOSSIBLE TO CALL A TOP IN GOLD STOCKS. GOLD LIKELY TO GO UP INTO A STOCK MARKET DUMP LIKE TLT.


$GOLD Gold - Continuous Contract (EOD) CME © StockCharts.com
12-Aug-2016 Close 1343.20 Volume 228.4K Chg -6.80 (-0.50%)
$GOLD (Daily) 1343.20
MA(50) 1321.11
MA(150) 1252.68
MA(200) 1209.94
Volume 228,413
LOOKING FOR A GOLD MOVE THROUGH $1,375 THIS FALL FOR A MOVE TO $1,450-$1,500 BEFORE YEAR END.


RT Ruby Tuesday Inc. Ga NYSE © StockCharts.com
12-Aug-2016 Op 3.37 Hi 3.56 Lo 3.20 Cl 3.24 Vol 1.9M Chg -0.49 (-13.14%)
RT (Daily) 3.24
MA(50) 3.83
MA(150) 4.53
MA(200) 4.75
Volume 1,871,266
RUBY TUESDAY CLOSING MORE THAN 10% OF ITS STORES AFTER SUFFERING REVENUE DECLINES THANKS TO SOFT ECONOMY.


FB Facebook, Inc. Nasdaq GS © StockCharts.com
12-Aug-2016 O 124.70 H 125.00 L 124.18 C 124.88 V 12.2M Chg -0.02 (-0.02%)
FB (Daily) 124.88
MA(50) 118.52
MA(150) 112.90
MA(200) 110.94
BB(20,2.0) 119.47 - 123.15 - 126.83
Volume 12,158,955
VOLATILITY AND VOLUME ON FB SHRINKING TO NOTHING.


NVDA NVIDIA Corp. Nasdaq GS © StockCharts.com
12-Aug-2016 Op 61.90 Hi 63.38 Lo 60.63 Cl 63.04 Vol 35.6M Chg +3.34 (+5.59%)
NVDA (Daily) 63.04
MA(50) 51.47
MA(150) 39.81
MA(200) 37.67
BB(20,2.0) 51.92 - 56.68 - 61.43
Volume 35,643,640
NVDA RALLIED ON EARNINGS FRIDAY TO HELP NASDAQ OUT AND REMAINS TOP PERFORMING STOCK YEAR TO DATE FOR NASDAQ 100.


DHI DR Horton Inc. NYSE © StockCharts.com
12-Aug-2016 Op 32.32 Hi 32.41 Lo 31.94 Cl 32.16 Vol 2.5M Chg -0.19 (-0.59%)
DHI (Daily) 32.16
MA(50) 32.17
MA(150) 29.73
MA(200) 30.05
BB(20,2.0) 31.34 - 33.02 - 34.69
Volume 2,542,866
IF THE S&P 500 TURNS DOWN IN AUGUST IT WILL LIKELY LOOK LIKE DHI DOES NOW AT END OF THE MONTH.


PPL PPL Corp. NYSE © StockCharts.com
12-Aug-2016 Op 36.56 Hi 36.75 Lo 36.24 Cl 36.26 Vol 3.4M Chg -0.14 (-0.38%)
PPL (Daily) 36.26
MA(50) 37.72
MA(150) 36.66
MA(200) 35.71
BB(20,2.0) 36.06 - 37.01 - 37.97
Volume 3,372,437
PPL IS A STOCK IN THE S&P 500 BROKEN DOWN. THIS IS WHAT THE WHOLE STOCK MARKET MIGHT LOOK LIKE BY END OF SEPTEMBER....


BA Boeing Co. NYSE © StockCharts.com
12-Aug-2016 O 132.90 H 133.78 L 132.63 C 133.10 V 2.5M Chg +0.10 (+0.08%)
BA (Daily) 133.10
MA(50) 130.16
MA(150) 126.18
MA(200) 129.98
BB(20,2.0) 129.84 - 132.22 - 134.60
Volume 2,522,553
DOW 30 STOCK BA HAS GONE NOWHERE SINCE MARCH.


DIS Walt Disney Co. NYSE
©StockCharts.com
12-Aug-2016 Op 97.82 Hi 97.82 Lo 96.66 Cl 96.84 Vol 9.4M Chg -0.93 (-0.95%)
DIS (Daily) 96.84
MA(50) 97.44
MA(150) 97.53
MA(200) 100.79
BB(20,2.0) 94.21 - 96.92 - 99.62
Volume 9,360,332
A YEAR AGO MANY THOUGHT OF DIS AS A MUST OWN DOW STOCK. IT IS ALREADY CLOSERS TO $95 SUPPORT THEN $105 MAY HIGH AND WILL LEAD THE DOW LOWER FOR REST OF THE YEAR TO CRUSH BAGHOLDERS.

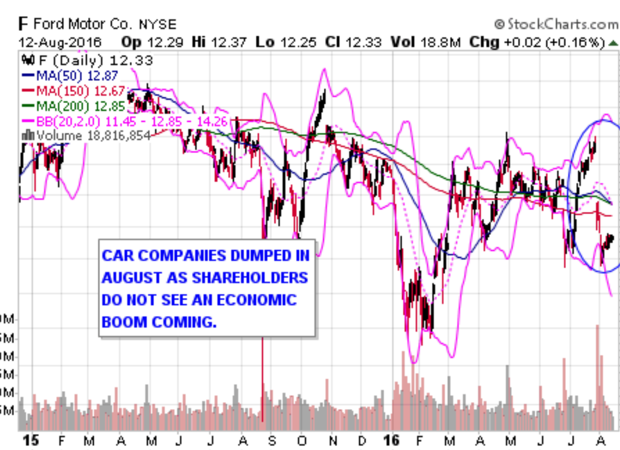

GS Goldman Sachs Group, Inc. NYSE
©StockCharts.com
12-Aug-2016 O 162.67 H 163.37 L 162.07 C 163.25 V 1.4M Chg -0.61 (-0.37%)
GS (Daily) 163.25
MA(50) 154.35
MA(150) 154.87
MA(200) 162.12
BB(20,2.0) 156.72 - 160.86 - 165.00
Volume 1,440,839
I ACTUALLY AM SHORT GS RIGHT NOW. IT IS ANOTHER BIG DOW LAGGARD.


NKE Nike Inc. NYSE
©StockCharts.com
12-Aug-2016 Op 56.70 Hi 56.76 Lo 56.13 Cl 56.45 Vol 5.4M Chg -0.28 (-0.49%)
NKE (Daily) 56.45
MA(50) 55.46
MA(150) 57.96
MA(200) 59.45
BB(20,2.0) 54.23 - 56.15 - 58.07
Volume 5,393,354
NKE WAS THE BIG MARKET LEADER OF 2015 FOR THE DOW. THIS YEAR IT IS BIG DISASTER. NO SIGN OF A BIG BULL RALLY COMING WHEN YOU LOOK AT INDIVIDUAL DOW STOCKS.


CBS CBS Corp. NYSE
©StockCharts.com
12-Aug-2016 Op 52.65 Hi 52.88 Lo 52.14 Cl 52.35 Vol 2.5M Chg -0.57 (-1.08%)
CBS (Daily) 52.35
MA(50) 53.84
MA(150) 52.15
MA(200) 51.13
BB(20,2.0) 50.76 - 53.20 - 55.64
Volume 2,508,982
CBS IS ALREADY SITTING RIGHT NO SUPPORT. I AM CONSIDERING SHORTING IT.


TSLA Tesla Motors Inc. Nasdaq GS
©StockCharts.com
12-Aug-2016 O 225.41 H 226.65 L 224.04 C 225.61 V 1.8M Chg +0.70 (+0.31%)
TSLA (Daily) 225.61
MA(50) 220.61
MA(150) 214.88
MA(200) 217.18
BB(20,2.0) 221.21 - 227.56 - 233.90
Volume 1,813,540
TSLA LOOKS LIKE A GOOD SHORT WITH STOP LOSS OVER $240.00 AS PEOPLE REALIZE THE COMPANY IS A LOT OF HYPED UP SMOKE AND MIRRORS.


NFLX Netflix, Inc. Nasdaq GS
©StockCharts.com
12-Aug-2016 Op 95.53 Hi 96.83 Lo 95.08 Cl 96.59 Vol 6.6M Chg +0.70 (+0.73%)
NFLX (Daily) 96.59
MA(50) 93.64
MA(150) 95.90
MA(200) 101.28
BB(20,2.0) 84.75 - 92.27 - 99.80
Volume 6,592,923
FANG STOCK NETFLIX IS NOW A BIG LAGGARD AFTER HAVING BEEN A 2015 WONDER STOCK.


F Ford Motor Co. NYSE
©StockCharts.com
12-Aug-2016 Op 12.29 Hi 12.37 Lo 12.25 Cl 12.33 Vol 18.8M Chg +0.02 (+0.16%)
F (Daily) 12.33
MA(50) 12.87
MA(150) 12.67
MA(200) 12.85
BB(20,2.0) 11.45 - 12.85 - 14.26
Volume 18,816,854
CAR COMPANIES DUMPED IN AUGUST AS SHAREHOLDERS DO NOT SEE AN ECONOMIC BOOM COMING.


VRSN VeriSign, Inc. Nasdaq GS
©StockCharts.com
12-Aug-2016 Op 84.49 Hi 84.66 Lo 83.12 Cl 83.25 Vol 493.3K Chg -1.42 (-1.68%)
VRSN (Daily) 83.25
MA(50) 84.53
MA(150) 84.18
MA(200) 84.68
BB(20,2.0) 82.57 - 84.27 - 85.98
Volume 493,315
VRSN APPEARS TO BE BREAKING DOWN. A GOOD SHORT WITH STOP LOSS ABOVE 87.00

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