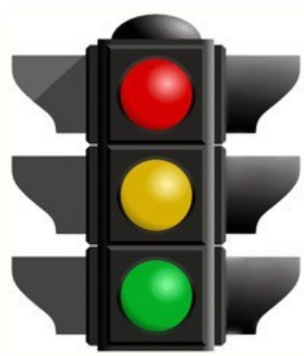
Wall Street Window Monthly

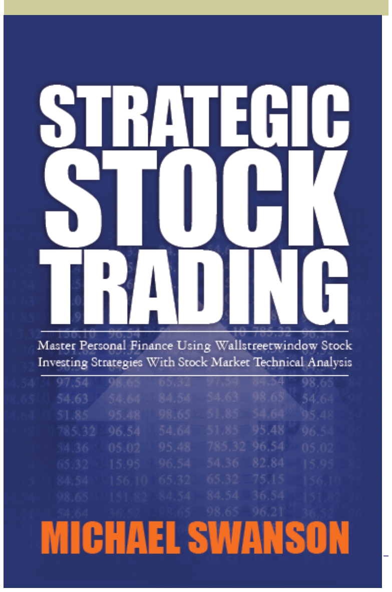
Stock Market Barometer

The Most Influential Financial Newsletter Read By Over 500 Hedge Fund Managers and Thousands of Elite Investors ~ March 1, 2012



Quote of the month:

""I simply do not know where the money is, or why the accounts have not been reconciled to date" - John Corzine



Mining Stocks May Become the Big Play for the Second Half of 2012—Mike Swanson

This is an investment letter. Most people read such letters for one reason. They want a stock pick. They want someone to tell them about a stock that they can put their money into and that will then go up and make them rich. That's all they want. And a good portion of these people will pay thousands of dollars to have someone feed them picks.

I'm on dozens of investment email lists and every week I get pitched thousand dollar stock picks services. I always wonder how often the people running these services actually buy their own picks.

The thing is I don't know anyone who got rich simply by subscribing to a stock picks service and then just blindly doing what they are told.

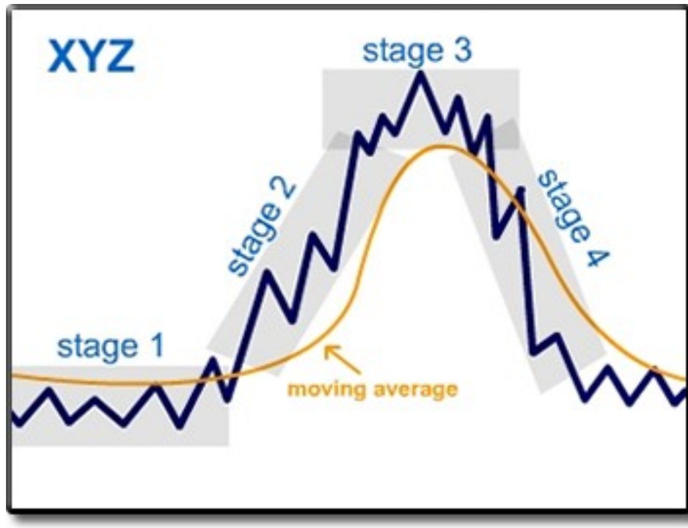
When I talk to people where I live and someone approaches me about investing they usually ask for a hot tip too.

The thing is though, which stock to buy isn't the first thing you should ask when it comes to trying to make money in the stock market and it is hardly the most important thing either.

What you need to ask is what type of market environment is it? You see it does no good if you buy the best stock in the world right before the stock market crashes. You have to invest and trade in a manner appropriate to the market environment you are in.

So let's focus on that simple question.

I use stage analysis and the position of the market relative to it's long-term moving averages to find the answer. At the end of stage one basing phases that come after bear markets and at the start of bull markets you want to buy stocks with the intention of holding on to them. But once you are in a bull market for a long-period of time you have to handle things a bit differently.



Every bull market usually has a major pullback at once a year and it is at those times that you want to want to take new positions with the idea of holding them. But when the market has rallied like it has now for six months it is simply too late to do that.

At times like this the market becomes a traders market. If you want to invest you need to wait for a pullback. If you want to trade you have to have a strategy that works - and what I advocate at such times is 3-5 day swing trades where you buy stocks that make a big move up, consolidate and hold those gains by basing for several weeks, and then breakout a second time. You just try to play that move and jump off and make a quick gain.

That's a game that is tough though for most people, because most people want to get in something and hold, so I have a very tough time at times like this putting out new stock recommendations for people.

The problem is that after the market has gone up for a period of time like this people begin to crave stock picks like mad. After corrections they are too scared, but after the market has gone up and everyone in the world is bullish they get scared of missing out on further gains - and in the end the fear of missing out is so much more powerful for the average investor - and the institutional investor who can lose his job if he doesn't make money when the market is going up - that people will buy into tops and then lose their ass year after year and never learn anything from their mistakes.

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So right now we are in a market that has rallied for a long-time, but has not yet showed signs of putting in a top. I expect one will come over the next few weeks, but I can't point to anything right now that says that a top is in.

When I see a top I'll certainly let you know, but right now I don't.

Now my views of the market have changed a little bit over the past few weeks. At the start of the year I was saying that we were in a global bear market in which the US market was outperforming the rest of the world, but would probably end up getting dragged down with everything else at some point this year.

Right now I don't think we're going to see a bear market hit in the US this year. I still think we're going to get that 15-20% correction like we did last year and the year before, but I don't think the bull market will come to a complete end.

It looks like the US is going to survive the European debt crisis, because the central banks are working to make that crisis drag out for years instead of letting it settle quickly. Another bailout band-aid is being applied to the Greek debt crisis, to help keep the debt from spilling all over the floor for another six months or year.

Historically most big bear markets in the US don't happen until after the Federal Reserve starts to raise interest rates. We're years from that happening.

The situation is very similar to what happened in the latter half of the 1970's. We could be in store for a market in which the averages make an important top this year or next year, but then don't really go into a bear market, but instead just go sideways in a range for several years.

Another way to look at this is the Fed will just keep doing QE and money printing to keep the market from going into a big bear market, but at some point instead of helping the market keep going up it will only have the effect of preventing it from going into a bear market.

That would spell inflation - higher gold and commodity prices which we can take advantage of as stock market players, but for the average middle class person it would mean more suffering at the gas pump and even lower standards of living.

Once we see the stock market have its next 15-20% pullback we'll look to see what sectors hold up, because those are the sectors that will perform well on the next big rally or rebound - or that will break away from the market and go into big bull runs of their own.

Gold has been in a corrective pattern since the end of last summer and gold stocks have been languishing in a sideways pattern now for over a year. If both hold up on the next big correction, which probably will start this month or next, then I'd expect we'll see another big leg up for gold and finally a huge run for gold and silver stock investors.

We'll be on the lookout to see if this happens. It may end up being the big opportunity of the year. The market will tell us.

Here are some recent questions I have received from readers and my answers:

"You mentioned you turned 7,000 into 6 figures (100,000) in a year. Is this something that is possible now or could you only do that because there was a boom during that time period? Did you use leverage as part of your strategy to get such a huge gain? - Lami"

This was back in 1998 and 1999. I was swing trading Internet stocks at the time and it was nothing to find Internet stocks that would go up 30% in a single day. Sometimes they would even double in a day. I had a small account and was putting all of my money into one to three positions at a time and then buying and holding them for two till three days. I'd get in, put in a stop order, and then get out after a few days for a big return. Then just find a new stock to that with again.

I did that until I go up to around $70,000 or so then March of 2000 came and the trades stopped working. I'd get a breakout and then just stopped out for near even. Then as that year went on a switched from playing breakouts to shorting stocks - again putting my money into just a few positions. I'd get in, hold my short for a few days, and then when the stocks dumped get out for profits. I'd then wait for the market to rally for a few days and repeat the same process again.

I wasn't using leverage in the sense of using margin, but I was putting all of my money into extremely volatile positions. I know of a few others that did the same thing back in 1999. Michael Parness did that and it is how Dan Zanger made his money too. Years after that at times I'd use margin.

But I don't see how one could do what I did, or these others did, back then today. Stocks no longer move like that anymore. To try to make such a big return in this type of market would probably require using a high degree of leverage or else taking even bigger gambles in FOREX or futures, where almost everyone loses money who tries it.

The easiest way to make big money is to buy stocks after a bear market. After a bear market bottom it is nothing for hundreds of stocks to simply double a month or so after the final bottom comes in. But that sort of opportunity probably won't come now for several years and almost no one reading this has the patience to wait for such an opportunity.

"Hi Mike. I hope you are doing well. It's been a while. I don't know if you remember me. I met you and Dave Skarica in Toronto at several shows a few years ago. I live in Dave's city of Hamilton, Ontario. I read your book.....really good!......and subscribe to your's and Dave's site. My life had a huge make over when, in 2007, I abruptly quit my job of 18 years. At the time, I opened my own business and got a job as a police officer with the Hamilton Police Service. It's all good but between the two, I work a ton of hours every week.

I have a question for you and wondered if you could answer. It might be too much to answer by email though.

I love my work but it detracts from being able to follow the market as much as I want to. I am a late bloomer to the stock market and stumbled across how good the gold sector was doing in 2003 and blindly decided to throw some money into it and I did GREAT. However, I got crushed in 2008 along with many others. However, I still have a fair amount of money for an average investor. Combined between several accounts.....

At 51, I have a goal of wanting to retire comfortably someday and my hope is that the stock market will help me to get there by my staying on the right side of the market and in the right stocks and sectors. I lived through the 1970's bull market and the internet stock bull market and watched it all from the sidelines. I never invested a penny in either.

I am inspired by your's and Dave's meager and humble beginnings and what you have both attained. My goals are simply to have my house paid for and enough to live on once I decide to retire. As I read through both your and Dave's sites, I sometimes am a little confused about what direction to go in regards to investing....So based on yours and Dave's stock recommendations, just what percentage should I put in? Should I attempt to invest in all or do I selectively choose some?

All the best to you. - Wendell"

Hey sorry it took so long to get back with you. I remember meeting you in Toronto and talking to you once or twice on the phone, even though it probably has been five or six years ago.

I look back on my investing career and see that really there have been key years that enabled me to make all of the money I did. I didn't make big money year after year after year, but it happened in several spurts. First was 1999 playing Internet stocks. Then the Fall of 2000 till the Fall of 2001 shorting stocks. Then getting in gold stocks like you did in 2002 and playing them big one or two other times since then, 2003 being one of those great years for gold stocks. And then shorting stocks in the Fall of 2008 on margin during the crash.

Other then that the other years were spent making little gains or spinning my wheels like last year.

The point is that I think the best thing to do in order to make big money in the stock market is to take advantage of big opportunities when they come.

Right now I don't see them. So putting a bunch of money in mine or anybody else's stock recommendations right now with the idea that is going to make you rich I don't think is the way to do it. It's just where the market is right now.

You have to understand that this is a business in which everyone craves stock recommendations. People sign up for these services to get fed stock picks. I don't give enough picks anymore, because I don't think this is a great time for them and a result at least once a week I get an explicative laced email.

The problem is almost everyone misses out on the big opportunities because they get caught up in the small gyrations and as a result can't step back from things in order to take advantage of the big opportunities.

And it's tough to not get involved when all you have to do is turn on the TV and see that the market moved and then want to do something.

But the biggest opportunities come either after a major bear market bottom or else when a sector lines up and gets in a position to go up for a year or more. You experienced that with gold. At the moment I'm not that excited about gold, but I think that gold and gold stocks may actually do well in the second half of the year. At some point there will be a pullback in the overall market and if they hold up during that pullback they'll be in a position to have one of those big runs like we experienced back in 2002 and 2003.

The thing is though this is a GREAT time to learn real trading and investing. Most people just want a stock pick and will sign up to anything that promises them stock picks and riches. But the smart people won't chase picks, because they look to learn. Instead of signing up to a trading robot or some other such nonsense, they'll go to the book store and buy a book and read it. Or get some videos. They'll learn to fish and then when the fish bite they'll be at the pond with their rods reeling in the money after the stock pick chasers already used all of their bait up.

Only five percent of the people that get in the stock market truly get rich. That's the difference. It's crazy because many people are willing to just throw thousands of dollars at the stock market and lose it without any clue of what they are doing and refuse to a read a few books about investing or take a simple course about it. The good news is that the complete stupidity of the masses is the edge you can have to make yourself a winner.

"I am new to your service, and I was wondering how you do your daily scans in this type of market environment? Do you look for stage 1 stocks right now and how do you figure out which scan to do. Do you just do a sector view and see which ones are doing the best and worse and then break it down from there. Any insight into looking at how to narrow the playing field of knowing which stocks to focus on would be greatly helpful. I have watched your course and read your book a couple of times and feel that some more targeted focus would come in handy, thanks in advance! - oran"

I don't really use canned "scans" when I look through stocks, much less "daily scans." What I do is use TC2000 to quickly look through stocks. I can look literally through about two thousand stock charts in a morning by using this program. All I do is narrow the stocks I am looking at to ones that have traded over 250k shares of average volume and then sort them by performance over the past few months and then simply go through them.

I also will rank and look at sectors and individual world markets and commodities.

I just don't think there is a substitute for taking the time to look through stocks and sectors yourself to see what is going on. You get a feel for what is happening and you'll see a few things stick out with the patterns that you like.

I think if you rely on some formula that will let you hit a button and look at a few dozen stocks you'll miss out. Also "daily scans" implies looking for a button that will let you daytrade or swing trade stocks. I don't think that sort of thing really works. You just have to do the work of looking. I also do not trade in that sort of style myself.

You can check out TC2000 with the Worden Brothers free version freestockcharts.com to see how it works.

As for looking I have found it is best to look AFTER the stock market has pulled back for several weeks. After a pullback more good potential stocks and trades line up.

A good method is wait for a pullback. And then look to see what sectors hold up the best on the pullback. Then finally look at the stocks in that sector. I will be doing this whenever we finally get a pullback for a few weeks in this market.

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