WallStreetWindow Monthly

Stock Market Barometer

The Most Influential Financial Newsletter Read By Over 500 Hedge Fund Managers and Thousands of Elite Investors ~ March 2, 2014

A Giant March is Coming For Gold! —Mike Swanson

I believe this is going to be one of the most important months in the financial markets that we have seen in the past few years. This is not an exaggeration either. This is not something I say lightly. I need you to read this entire monthly letter carefully and you'll understand why.

Everyday the stock market goes up and down and everyday you can turn on the TV and hear of some news story reason to explain to you why. All of these daily moves though really mean nothing when it comes to your investing though. They are almost a waste of time to even hear about.

But people are wired to want to know why something is happening, because their brains demands of them a feeling of certainty. If it can know why the market moves up or down it can feel less anxious. So the TV feeds your eyes and ears information to make your brain feel at ease. But it's all absolutely useless information, because what makes your brain feel less anxious for a few moments means absolutely nothing in the long-run when it comes to your investments.

Let me tell you what truly matters. It's one simple thing. Are your investments aligned with the reality of the real big trends of the financial markets? So you do not want to be holding stocks in a giant bear market like we saw after the internet stock market bust in 2000 or during the stock market banking collapse of 2008. You don't want to be holding stocks ahead of a crash. You also do not want to be buying stocks when they are really expensive and in danger of making a bull market top. What you want to do is mak-

Quote of the month:

"I Must Abandon Free Market Principles to Save the Free Market System" - President Bush when he proclaimed the nation must support the TARP banker bailout scam.

ing investments at the START of a new bull market trend. If you buy when stocks are truly at a cheap valuation and about to go up for years you can get rich. Investing is that simple.

But people do not do this, because all they do is look at what the DOW and S&P 500 are doing in a given day and react to that movement. They just listen to some news talking head tell them something and jump to their computer and buy or sell in response. They do not look at fundamental valuations or real BIG market trends.

If your whole world is just the S&P 500 and DOW and you are trying to make money on a short-term basis that is all you can do. But if you look at markets all over the world and different ASSET classes then you can pick and choose more carefully what you want to be involved in. There is a saying that there is always a bull market starting somewhere.

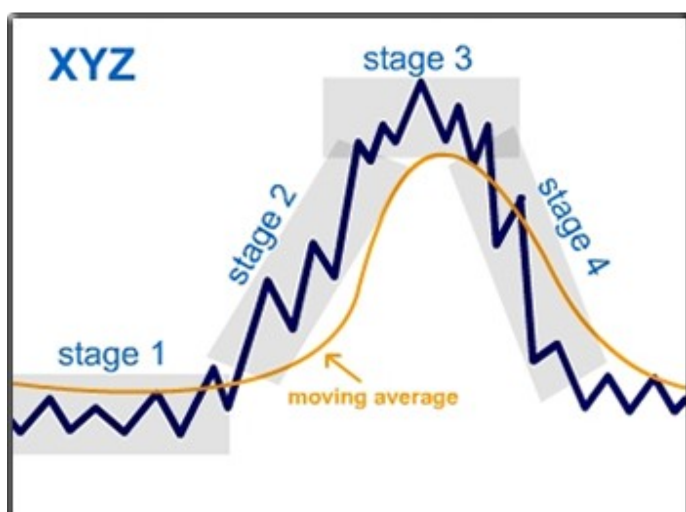
Well this isn't really true on any given day, but it is almost true in any given year. It seems every year that there is indeed a new bull market starting somewhere. If you simply looked to figure out where you could buy at good times and have an easy time holding, because once a bull market gets going and you get big gains you then get a nice cushion that makes it easy to hold through the natural dips of a market.

That is what I did in European markets in 2012. I bought after they collapsed in the summer of that year following a bear market and "bad" news on TV about Greece. That's then though.

Right now a new bull market is starting. It's starting in commodities and in metals and mining stocks. It began in various commodities in January. Then in February gold, silver, and mining stock came alive. And this month they are poised to complete their transition process of completing a stage one base and beginning a new bull market.

People make investing complicated for themselves, because they try to make sense out of what happens with a daily move. If they would just look at the big picture though things would be clear and simple for them. But TV doesn't show them how.

Look at the graphic on the right. I break a financial market up into four simple stages. You have a stage two bull market, a stage three topping market, a stage four bear market, and a stage one base. In a stage two bull market the 150 and 200-day moving averages tend to act as support. They do the opposite in a bear market. In a stage one base a market goes sideways around these moving averages as they flatten out.



Towards the end of a stage one base the market breaks above them and then continues higher. As the stage two bull market gets going these moving averages then act as support. Stage two bull markets typically last 3-5 years.

So if you buy when they start and then hold for several years you can invest in a way in which you maximum your potential reward with very little risk, because you are making the best entry point you can possibly make.

Let me stop talking about gold for a second, because at the moment I'm getting very few questions about gold. You see when a bull market starts very few people believe it. Sentiment surveys show that most people are negative at the start of a bull market and get wildly bullish at important tops. The reason why is that people get bullish after they buy and bearish after they sell.

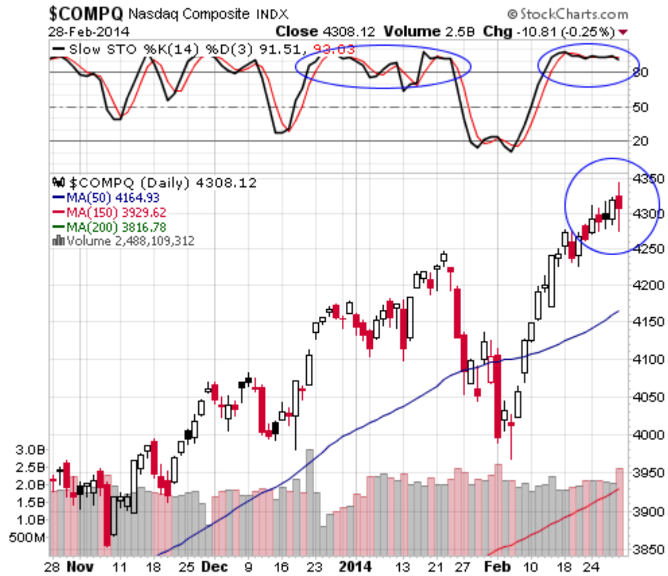
A stage four bear market makes people sell and a stage one basing phase makes people either give up or just move on to what appear to be more exciting markets. That's why right now CNBC is hardly saying a word about gold and commodities even though they have been making important moves.

I get about 100 emails a week and I'm getting very few about gold despite the fact that I've been talking a lot about it. Most people are simply wondering more about the US stock market. Some are bullish on the market just as everyone on TV is. Some are bearish. And some are worried.

I'm in the latter category myself. I do not think we are in a bear market yet, but I think we are starting to see the US stock market BEGIN the stage three topping phase transition into one. Such phases can last for a few weeks or for months. They can go on for a year. I think this one can last for sometime.

During a stage three transition phase two things tend to happen. First when the market rallies and makes new highs the rallies stall out and go nowhere. Then when it corrects it falls and makes some think it is going to crash and then goes back up. What it does is fool everyone involved into thinking the moves are really important. It causes most people who play the short-term moves to churn their money over. See that's why it is EASIER if you want to really make money to make decisions based on the big picture and buy only in markets where important things are happening in that regard.

At the same time as a stage three base plays out over time fewer stocks and sectors participate in the market rallies. On corrections more stocks and sectors fall hard and go into bear markets of their own by falling below their 200-day moving averages. The indices often go higher in a stage three base, but what happens is that they become fueled by



fewer stocks actually going up. There is a market saying that when the "generals are shot" the bull market is over. What this means is that when the last leading sectors of a bull market top out the bull market ends and the indices go into collapse.

In the final months of the last bull market that ended in 2007 only a half dozen stocks were responsible for half the gains that were generated inside the Nasdaq 100.

Last week CNBC got all excited when the S&P 500 made a new high for a few moments. It then quickly faded on Friday. Someone sent me this email:

"I noticed something happened in the past days at the opening hours.
The markets swing up and down, very volatile, pushing up and down to one end.
These swings happened at the opening hours.
These are signs of distribution.
These are signs the markets do not want to go up, but pretended to go up.
I am expecting a sharp drop from the markets from the remaining of this week and the following next two weeks. The time has come.""

My answer to this is that I think it is way too early to say that we are really starting a stage four bear market, but you may be right about the market falling for the next few weeks. I need to see more deterioration inside the stock market first though to make a bear market call. I need to see more sectors fall below their 200-day moving averages. I'm watching the situation carefully and once I see that and become convinced I will certainly point it out. And in fact I will likely take short position bets AGAINST the stock market at that point too.

But we are not in that situation yet and until that happens the average person in the market with mutual funds and what not shouldn't really get too worried or concerned. A lot of pros read this.

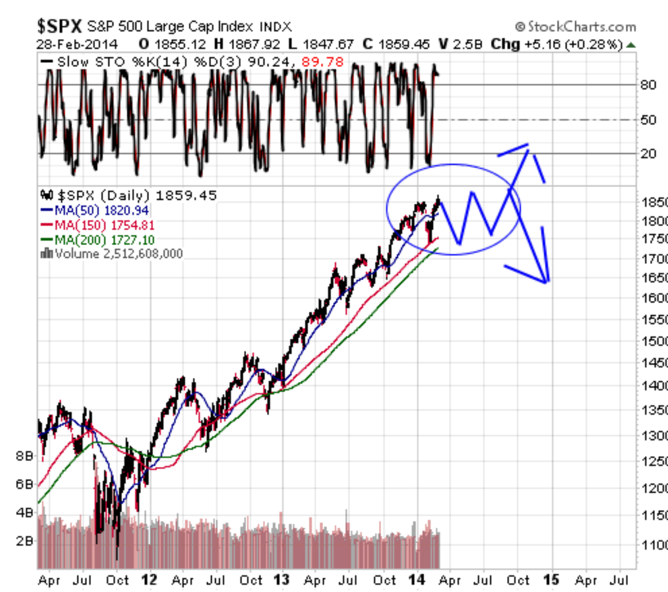
The truth is most brokers and investment advisers pose a bigger risk to their careers if they are bearish and wrong than bullish and wrong so they need to be extremely careful about becoming bearish on the stock market, because if they sell their clients out of the market and it goes up they will be smeared by their colleagues and their clients will think they are insane. However if they hold and stay bullish during a bear market their clients won't take their money away from them, because they can tell them that the market will come back, invest for the long-run, and other crowd psychology pleasing slogans and their clients will accept them since almost everyone they know will be losing money too anyway. It is when the mass man is not making money when he thinks everyone else is that he truly suffers psychologically. So the "professionals" for the most part are bullish all the time when it comes to the stock market and the average person never really gets rich from investing because all he does is follow the mass crowd. He never aligns himself with the real big trends of the market and since he just does what everyone else does gets the same results as everyone else.

Now I use TC2000 software to keep track of what the sectors are doing. It breaks the stock market up into 239 "industry groups." Eight-two of them are in the red year-to-date. That's about 34%. About half of these are below their 200-day moving averages. Now when the last bull market ended in 2007 half of the sectors were below their 200-day moving averages.

So the situation is not dire, but it's not good either. You see even though the S&P 500 went to a new high last week 216 of the stocks that make up the S&P 500 are actually in the red year to date. When it comes to the Nasdaq 100, which has been the strongest of the three major US stock market indices 42 of them are in the red year to date. This is not good.

I take this as a warning sign. I take it as a sign that the US stock market is now in a stage three top that is a transition phase that will eventually bring a new bear market perhaps at the end of this year or next. Again though more deterioration will need to take place in the sectors before that occurs and it is possible that this weakness is a temporary aberration so this is something I'll be watching closely for the rest of the year.

So when it comes to the US stock market I'm personally worried about it. I also do not see a real easy way to make any money in it right now. The trend is not clear. And the US stock market even in the best case scenario is overvalued and five years into a bull market. My guess is that the stock market is going to peak out in the short-term soon and have another pullback down to it's long-term moving averages. Bounce back up, and then go sideways into the fall. Then it would be in a position to either breakout for a new big run like the bulls expect or begin a new bear market. That's all guessing though on my part.



There are markets were it is hard to tell what is happening and markets where what is happening is easier to see and more important at the moment.

Real money is made by getting in at the start of something big before it gets going. You need to identify when a stage one base ends and a new bull market starts. And for that we need to keep our eye on the new BIG bull trend developing in the commodity and metals markets. Gold and gold stocks last made a major bull market top in 2011. They then fell in 2012 and fell hard last year in April and then in June to make a final bear market bottom.

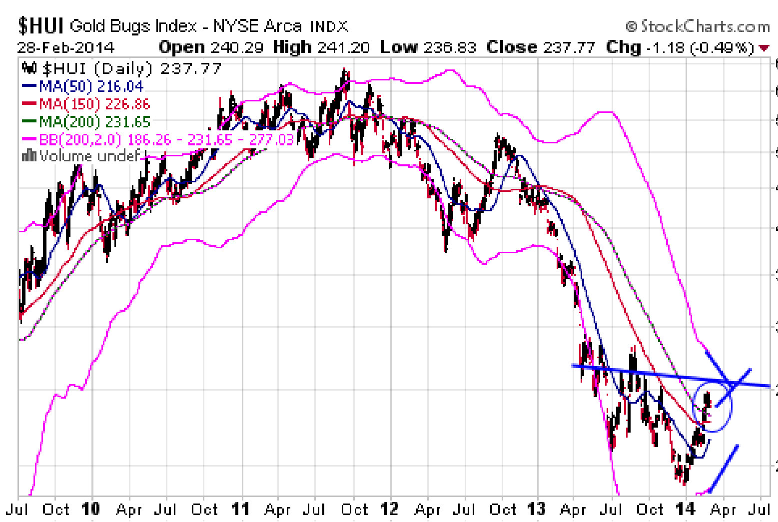
Since then they have been going sideways in a stage one base. During this time their 150 and 200-day moving averages have flattened out as expected. Now in the past few weeks gold and gold stocks have moved above these moving averages to suggest that the stage one basing phase is coming to an end.

One tool I use to figure all of this out is the long-term 200-day Bollinger Bands. These bands measure the volatility in a market or stock. Most people use shorter term 15 and 20-day Bollinger Bands to make trades, but I like to use long-term 200-day bands to see the big picture.

What happens is that during a basing phase volatility contracts, because the market moves become shorter in duration. During a stage one base the rallies lead nowhere and smart money accumulates on drops and prevents further declines. So you get a sideways movement. When volatility really shrinks the bands contract so much that they begin to point towards one another. Once this contraction stops and the bands then move away from each other a basing phase comes to an end and a market breaks out of resistance to the upside.

What makes a stage one base come to an end and a new bull market start is when all of the sellers that have come in during the rallies, thereby putting a lid to them, run out of stock shares to sell. Once they disappear from the market the resistance lid their selling has put on it is gone and the bulls get in control.

This makes the 200-day Bollinger Bands a good indicator to use in order identify when a stage one base is ending or project when it is likely to come to an end.



These Bollinger Bands are now coming together and will reach an extreme in 2-3 weeks. This suggests to me that the mining stocks will complete their stage one basing phase in that time frame and begin a full blown bull market. I really believe they are simply making the transition from a stage one to a stage two bull market in February and will complete this transition this month.

I actually made this same time projection over a month ago based on these Bollinger Bands, but I did some buying in gold, silver, and mining stocks the other week. I plan on buying more sometime this month too.

The gold stock indices HUI, XAU, and the gold stock ETF's GDX and GDXJ all closed above their 150 and 200-day moving averages a few weeks ago. I think this is an important milestone that signals that they are indeed transitioning into a new bull market.

When I did some buying my plan was to buy more once the mining stocks pulled back or went sideways for a few weeks. This appears to be occurring right now.

The HUI currently has resistance at 250 while the XAU's resistance is at 105 and the GDX's is at 27. If the mining stocks pause for a few weeks by going sideways and consolidating their recent gains below these levels they will put themselves in a position to break through them at the same time that the 200-day Bollinger Bands are signaling an extreme low in volatility. If they then breakout I believe they will then begin to launch a powerful rally that will last through the rest of this year and beyond. A year from now it will then become clear to most people that they are indeed in a new bull market. Few people buy at the beginning, because few are paying attention now. But they will later.

I have bought gold and silver and the mining stocks. You can buy gold through the GLD ETF or silver through the SLV ETF or get the physical metals through a good dealer. Yes I got some physical stored away too. But I like the mining stocks for my brokerage account, because in a metals bull market the right ones tend to even go up more than the metals! There are mining stocks that are priced cheap and are positioned with high earnings growth thanks to increased production targets. They have new mines and projects on line. Earnings growth and rising metals prices means they will generate explosive earnings. That means rising stock prices. When the charts line up with fundamentals you invest at the right time in a sector in the stock market.

You always have to watch what all of the sectors are doing to understand what is happening and what the real opportunities are. In March and April of 2000 a giant bull market ended in the US stock market, but tobacco and utility stocks began new bull markets that lasted for several years while most people just held on to their tech stocks along with the rest of the crowd and got crushed. Today it is commodities and mining stocks that are starting a new bull market. This is where the money will be made. I will do what I can going forward to help as many people as I can with this, but will do all I can to help my private group of Power Investor members.

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