WallStreetWindow Monthly

Stock Market Barometer

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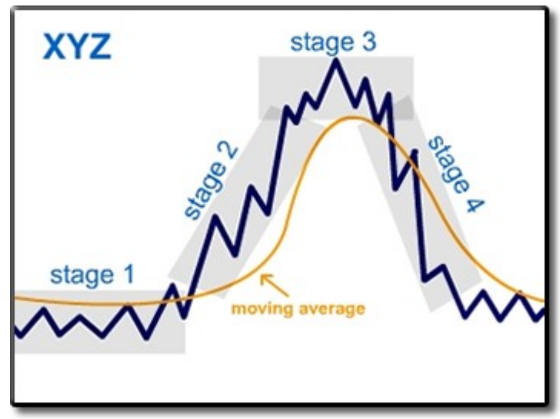
Here Is the Sizzle!—Mike Swanson (03/03/12)



I titled my last monthly newsletter Pop and Sizzle! I spent most of the issue making note of the fact that investors were getting very bullish about the market and complacent. Right after I sent the issue out on February the 5th the number of people proclaiming to be bullish in the Investors Intelligence survey even reached a manic 54% - a point hit near its spring and fall peaks of last year.

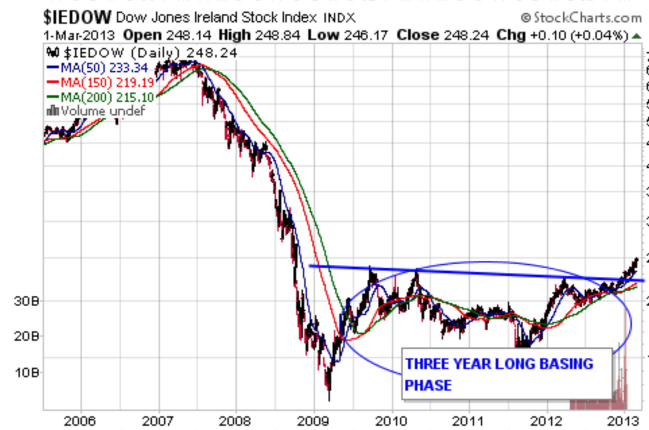
I also spent much of that last issue saying that the best way to buy new positions in the market is AFTER corrections come. I said I was planning to hold what I got and buy once we got a correction.

Now we seem to be in the beginning of what will probably be a shallow one for the US stock market and have seen a total panic in mining stocks, that stands in stark contrast to the complacency we have seen displayed when it comes to US stocks in the first few weeks of the year.

When it comes to the long-term trends my views have not changed. I believe we are in a mature cyclical bull market in the United States within a secular bear market. That cyclical bull market is going on its fifth year. There are no signs that it is over, but because it has gone on for so long and the valuations for the US market as a whole are now among the highest in the world I do not think there is huge upside in the major US stock market indices going for-

Quote of the month:

“The debt is in dollars. We can’t run out of cash. We print the stuff.” - New York Times economist Paul Krugman

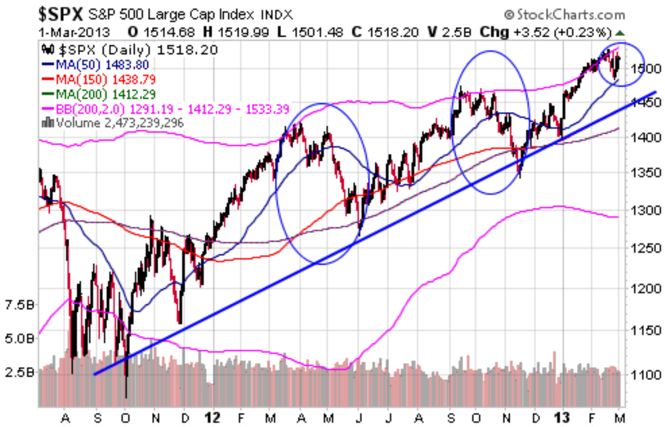


ward and the best opportunities to profit are in markets outside of the US that appear to be in the beginning of a new bull market and have very low valuations. The GWL ETF, which tracks the largest stocks outside of the US, broke through a stage one base at the end of last year to start a new bull market. It has been correcting the past few weeks, which has scared many people, but it is still above the resistance highs of the base it broke out of it. This is a simple normal pullback. Now some markets such as Spain and Italy have broken out and now have pulled back into their base by falling through this previous resistance level, but most world markets have not - they look like GWL— and over the next two to three years I think Spain and Italy will do fine.

Markets such as Ireland are still in an incredible position. Ireland still is one of the most cheaply valued markets in the world and broke out of a three year long base at the end of last year. I still like Irish stocks such as IRE and the Ireland ETF's EIRL and IRL and continue to hold them.

Now commodities and gold followed these global markets in to bear markets in 2011 and have yet to breakout into a new bull market. Oil stocks as a whole did turn up at the end of last year and actually were among the top performing sectors in the US stock market so fast this year along with banking stocks such as Goldman Sachs and Bank of America, but there are lots of commodity sectors that are still basing. Some like mining stocks have fallen to their lows of last year and are in a panic sell-off while others such as shipping stocks are near the resistance points of their stage one base and in a position to breakout of them.

Once their current drops ends they should put on major bottoms for the year and do very well going forward. It is hard to buy on an exact bottom and easier to build a position by averaging in with a couple of purchases. I bought a few coal mining stocks the other week and am watching mining stocks now. I really think that now is the time to put together a shopping list of stocks that you want to own now. Maybe you missed many of the European markets and are interested in IRE. Maybe there are some US stocks you feel you have to own. Or maybe you want to



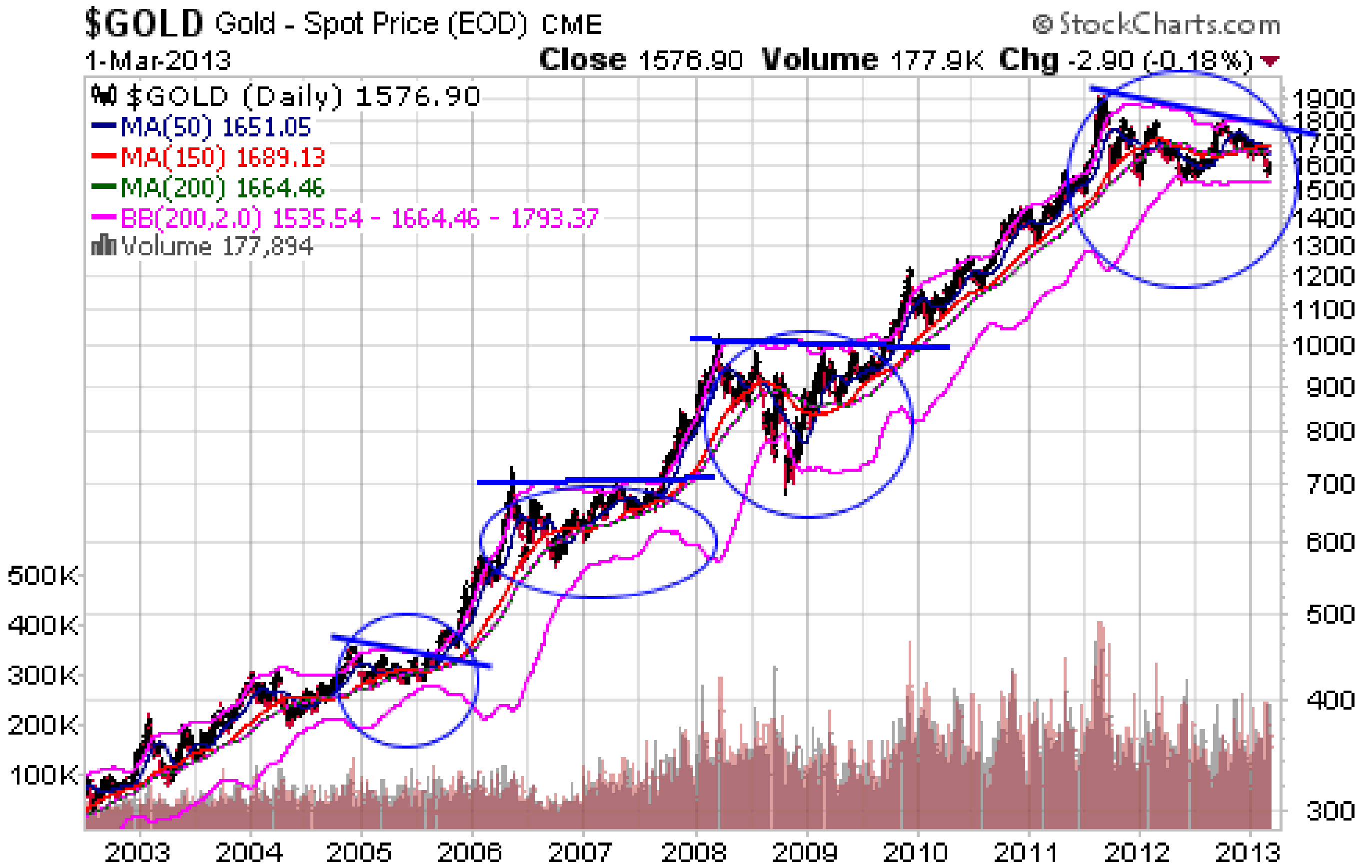
get into a potential gold bottom. Whatever the case is for you it all leads us to ask when will the correction end? The current action in the S&P 500 looks very similar to me to the two corrections we saw in 2012. Both of them lasted just a little bit longer than eight weeks. They started with some wider gyrations near the top and sideways action and then led to a quick plunge for a 10% loss from the high in the summer and a 8.60% loss in the Fall. A 10% loss from its high would take the S&P 500 down to 1377. I don't actually think that is going to happen. In my view the overall volatility in the market is shrinking in the US stock market (this happens in a mature bull market) and we are going to see a market in which the market basically does a lot of drifting in a narrow range as leadership shifts more in markets outside of the US and in commodities.

In a drifting market people obsess over tiny gyrations and get despondent over a 5% drop and excited to buy at highs. They blow up news stories, and every market move, but in the big picture not much really happens.

Right now the S&P 500 has support at its 50-day moving average at around 1480. It looks to me that this support is likely to hold for a few weeks and then the S&P 500 will close below it to bring a panic drop to bring the end of the correction. Maybe it will go to 150-day moving average at 1440. That would be about a 6% drop from its recent February high.

One thing that makes me think the market will not fall a whole lot is that the VIX already made it up to 18 last month. The VIX now has long-term resistance in the 22.50 area, which is where its upper 200-day Bollinger Band is at. It went that high last December during the fiscal cliff TV talk and up to 27 1/2 last summer. All it would take is a few bad days to get it back up beyond 22.50. A VIX doubling off of its low is a big move.

What is more the number of people bullish in the Investors Intelligence survey is falling. Last week the number of bulls was at 46%. At the fall bottom they were at 37%. It would take just a few weeks for them to get that low again if they continue to decline at their current rate. It just took three weeks for them to go from 54% to 46%.



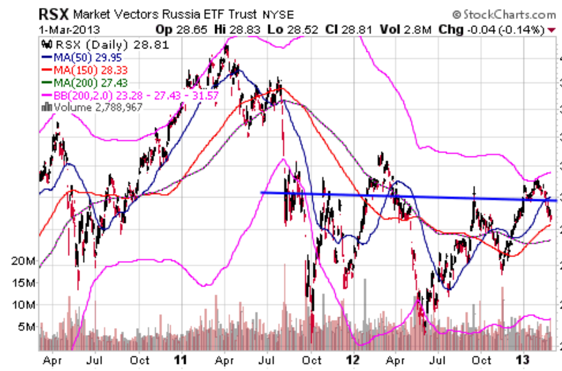
To time a bottom I would look for the S&P 500 to close below 1480. Then I'd want to see some hard selling that took the VIX up through 20 and the ratio of sell to buy orders on the NYSE to hit the 9:1 point one day, which has often coincided with bottoms in the past 13 years. You can find that info at Yahoo Finance in their Market Overview section. I could see this all happening in 3-4 weeks.

The action in gold is very interesting right now. Gold has been in a secular bull market now since 2002 and has gone through several pauses since then too that lasted at least 16 months and can be called cyclical bear markets. They certainly were for the gold stocks. This current pause began in the fall of 2011 and is now almost into its second year.

Throughout the secular bull market the 200-day day lower Bollinger Band has acted as major support for gold and gold stocks. It is at 1536 and gold has headed down towards it. In my view once this current drop in gold is over gold will rally back up what is now long-term resistance at 1665. If it breaks through that it will begin another leg up in its secular bull market. I still expect this too happen even though the current action in gold has caused many gold bugs to lose hope.

In my view we are in the process of seeing gold put in a major bottom. I don't know if it put in a price bottom yet or will go a little lower, but whatever the case by the time the S&P 500 correction ends the correction in gold should be over. Last summer gold and gold stocks bottomed several weeks before the US stock market did. The same thing could happen again. Personally I plan on buying more commodity related stocks as we get closer to the end of the broad market correction. I don't think its wise though to just put all of your eggs in gold or silver stocks, but instead to spread out in different markets and sectors. Don't get me wrong I think they have tremendous upside once they make their turn, but even if they went straight up it is hard for someone to be 100% invested in one single sector and hold through a bull run. I find it easier to manage my money by being spread out in several different sectors and lots of stocks.

For commodities we have mining, energy, and shipping stocks to consider. You also have countries linked to natural resources that you can invest in too, such as Australia or Russia. I own RSX, the Russia ETF. A lot of Americans still harbor a lot of hatred and fear towards Russia thanks to their Cold War conditioning so they refuse to consider investing in it. Yes most Americans are paranoid and fearful of the outside world. That's why so many of them love wars, but the cost of endless war is inflation, lower living standards, and imperial bankruptcy. Another country they can consider is Australia.



If you are feeling huge pressures right now because the market is correcting than I think you probably made a mistake in either buying at a recent top or just being way too invested in one stock or in one sector. Right now you should be in a position to ride things out and/or be buying. It is buying at times like this that money is made in the long run. We all need to learn from what we do in the market to try to improve our results and decision making. At this point I will be watching all of this on a daily basis with more frequent updates. I did a mastermind session with WSW Power Investor members the other week and sent them more reports with individual stock ideas last month. More will come this month. Now is the time to be studying the market. It is corrections when you can buy things at discounts that provide the best opportunities for investors and traders who like to buy low. These times only come once or twice a year.

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