



Stock Market Barometer

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



Quote of the month:

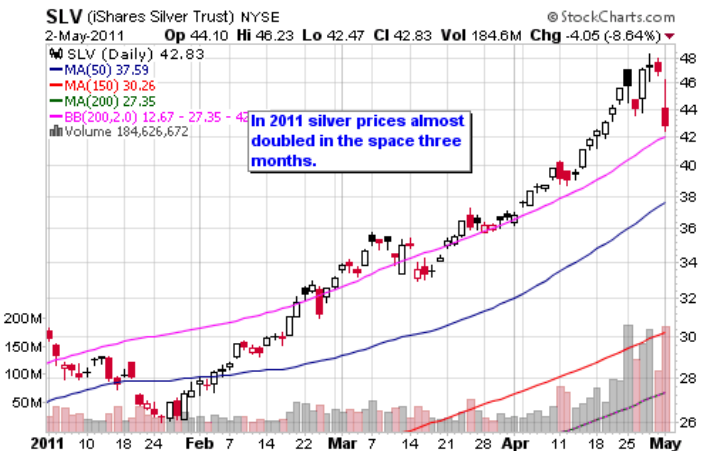
“The United States can pay any debt it has because we can always print money to do that. So there is zero probability of default.” - Alan Greenspan

Don't Forget About the Power of Gold – Mike Swanson

I titled last month's issue of this newsletter "Mining Stocks May Become the Big Play for the Second Half of 2012." I wasn't saying that it was time to buy them, but that I thought that when the correction they are in, which has been going on now since way back in September, came to an end they would likely put on a big performance through the rest of this year.

Now the correction hasn't ended yet and they have fallen a bit more this past month. That fact has caused many people to throw in the towel on them and I've even seen articles and blog posts on the Internet declaring that gold is now in a bear market. For instance just a few weeks ago frequent CNBC talking head Dennis Gartman announced that he was out of gold after pounding the table on it in January.

Right now most people are captivated by Apple stock since it has been going straight up so far this year. Very few investors are thinking about gold or silver anymore. But I don't want you to forget about them, because when mining stocks go up they can go up like Internet stocks did back in the late 1990's. In 2011 the price of silver practically doubled in the space of three months. Gold and silver have been in



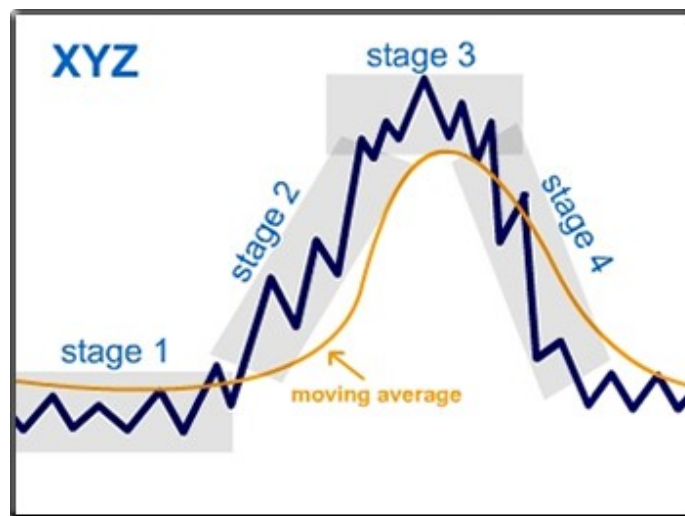
STRATEGIC STOCK TRADING

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91.25	89.44	88.85	88.85	88.85
84.63	83.48	82.85	82.85	82.85
81.88	80.48	79.85	79.85	79.85
78.52	76.54	74.84	74.84	74.84
74.36	73.02	72.48	72.48	72.48
69.38	67.99	66.38	66.38	66.38
64.58	63.10	61.32	61.32	61.32
59.69	57.17	55.24	55.24	55.24

MICHAEL SWANSON

secular bull markets now for over ten years and during that time I have played several big runs in the stocks and I think we're going to see another one start in the future and we have to be prepared and ready for it. We have to recognize it when it starts. And we can't be too fearful because of what gold and silver have done so far this year. I'm also worth listening to on them, because I've had experience in trading them and I have been negative on them since they peaked out last August. I'm not some Kitco gold bug that has been telling you to buy them as they have kept dropping.



Now a lot of people are ringing their hands trying to figure out what exactly is behind the weakness in gold and silver. Everyone knows there is inflation now, because oil prices are rising and so is the price you are paying for gas at the pump and just about everything else. Everyone knows the Fed is printing money like mad. And everyone thinks gold should be going up, because of all of this. But it hasn't been.

You are probably wondering why. The reasons are pretty simple. It's how financial markets work. To understand what I'm talking about let's look at the rest of the stock market first. I want to show you a simple concept and then we can apply it to what is happening in gold and silver.

In big bull markets you get pullbacks and consolidation periods that last a year or even longer. For example in the last bull market from 2003 till 2007 there were two periods of consolidation for the S&P 500 that lasted almost an entire year and several times that the broad market experienced very sharp pullbacks.

And of course in this current cyclical bull market we saw a big pullback last fall and consolidation period in the summer of 2010. In the broad market these pullbacks and consolidation periods tend to happen af-



ter the market has experienced a big run and investor sentiment gets wildly bullish. They happen after a big top in which just about everyone out there that can buy into it and everyone is bullish. At that point there are few people left to buy stocks so a corrective phase begins. And the thing is the bigger the run that happens before that pullback the more likely a long consolidation phase occurs.

Right now there is no sign that a top is in for this market rally, but it does appear to be heading to the type of top that comes right before a big correction or long consolidation phase. According to last week's Investors Intelligence survey 22% of the those polled are bearish on the stock market while 50.5% are bullish. This is the lowest number of bears since July of last year. Most of the time though the big tops come in when the bulls are over 55%. The survey isn't there yet, but could possibly get there over the next few weeks or months. It's something we'll keep an eye on together.

But if a big top does come, it probably wouldn't mean a new big bear market, but simply a pullback or consolidation phase like the last two we've seen. The reason why is because we haven't seen the type technical divergences which tend to lead up to new bear markets, such as a declining advance/decline line as the averages go up.

Also historically most bear markets start AFTER the Federal Reserve has raised interest rates several times and the Fed has pledged not to do that for at least another year and a half. In the last bull market the Fed raised interest rates 17 times from 2004 to 2006 before the market finally topped in 2007. During this time rates went from a low of 1% to 5.25%.

What is more over the past twenty-years the Fed has tended to keep interest rates top low for too long and thereby created bubbles that once popped damaged the entire economy. It was the Fed that helped to create the Internet and technology stock bubble of 1999 and the real estate bubble that led to the country's banking crisis and current malaise.

If history repeats again and there is no sign at all of a change in Fed philosophy then the Fed will create another bubble during this cyclical bull market too. Some are saying bonds are the bubble. But whether or not that is the case bubbles are likely to form in commodities and inflation alike in the 1970's and in the end that means higher gold and silver prices will come. It's Dave Skarica's "Great Supercycle."

Putting some perspective on things it doesn't seem likely that the Fed is going to pop the current cyclical bull market with higher rates now for another 2-5 years. They'll keep rates too low again for too long. In fact they probably already are when it comes to the economy.

Think about real estate. If you are thinking of buying or building a new home you really have no reason to go out and do it now, because the

real estate market is weak and the Fed says it won't raise rates for at least another year and a half. So why go hurry and do anything in real estate? However, if you knew that the Fed was going to start raising rates and that mortgage rates would start to rise in a few months then you probably would go out and build or buy a home if you are thinking about it.

So the Fed's policy of keeping rates at zero at this point is actually probably doing more harm than good for the economy. You'll see in two years or so once rates start to go up I bet we'll actually see a nice pickup in the economy occur. And the other thing is that I bet you that once we get in the last few years of this cyclical bull market we'll see a big pickup in inflation and commodity prices just like what happened in the 1970's at the end of that secular bear market, because this cyclical bull market will probably be the final cyclical bull market of this 10+ year secular cycle just like you saw at the end of the 1970's, and both periods can be characterized by completely reckless monetary policy and weak political leadership in the United States.

As far as gold stocks go they aren't in some giant bear market, but have merely been in a correction for the past six months. And it shouldn't be a giant shocker to you, because these type of corrections happen after big runs. Gold and silver stocks went up 400% from their low of 2008 to high of last year. That's a GIANT move.

After such big moves a year or even two years of consolidation is normal and that appears to me to be exactly what is happening with mining stocks. We've seen them do this many times before over the past ten years throughout this secular bull market for gold.

Gold has been in a secular bull market since 2002 and during this time has gone through long one year plus consolidation phases several times. These consolidation phases have come to end when its 200-day Bollinger Bands have come together - this is something that should happen at the end of this year or first half of next year, after which gold should



begin another big leg up for its secular bull market in which the price of gold could easily double. And silver prices. I'd expect them to simply explode.

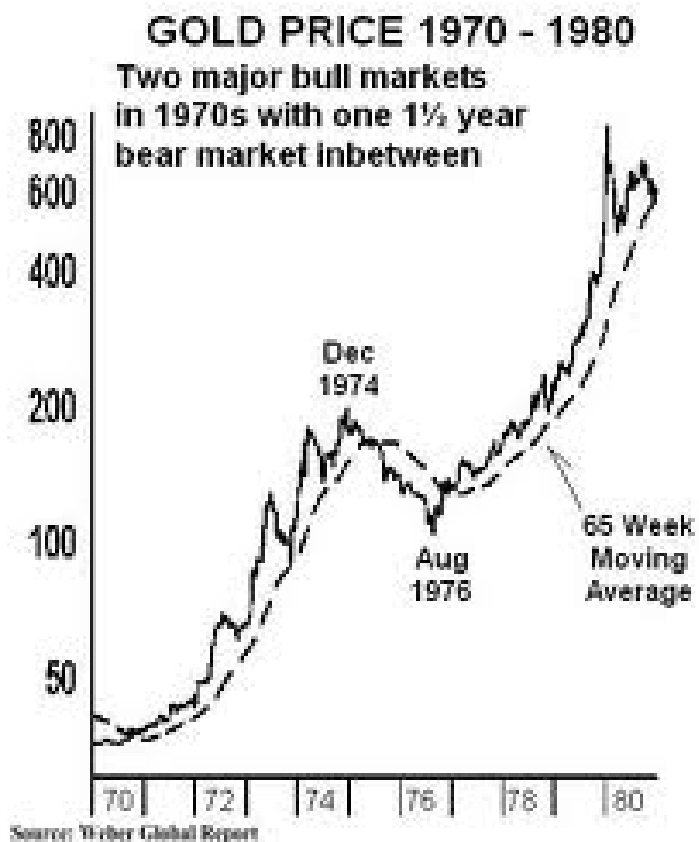
So right now this means gold and silver stocks are in a big long drawn out sideways phase and are moving towards the bottom of this sideways channel. They may have reached a bottom now or they may do it later this spring or summer on a broad market pullback. My bet is on the latter, but probably not from prices too much lower than here.

Whatever the case though once this pullback is over I plan on building a nice position in mining stocks myself. My goal is to build a position in them over the course of this year with the aim of participating in the next big bull move up that I think will likely start next year and lead to mining stock prices double or triple what they are now.

One thing about them is that mining stocks are now priced so cheap on a fundamental valuation basis that the upside potential for them once they start a new bull trend is enormous. Take a look at mining giant Newmont mining for example. It currently is paying a dividend yield of 2.7%, has a forward P/E of 9, and a PEG ratio of 0.23. It's not the only mining company this cheap. Barrick has a forward P/E of 7.21 and PEG 0.28 while AngloGold has a forward P/E of 7.20 and PEG of 0.14. These are the big cap mining stocks that mutual funds and hedge funds buy when they pile into gold stocks.

And some of the big cap silver stocks also have low valuations like this too. Silver standard for example has a forward P/E of 8.40 and PEG of 0.04! These are crazy cheap valuations. If gold and silver and the mining stocks turn around like a I think then these low valuations now will lead to giant gains later. This is the power of gold.

Of course no one will pay attention until they start to go up. CNBC isn't talking about mining stocks. Everyone is glued and obsessed with the movements in Apple right now. But we have to be forward thinking to what the next big trend may be and not just what is happening right at this moment to make money. That's why I'm watching what is happening very closely to gold and silver prices and why I don't want you to forget about them either.



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