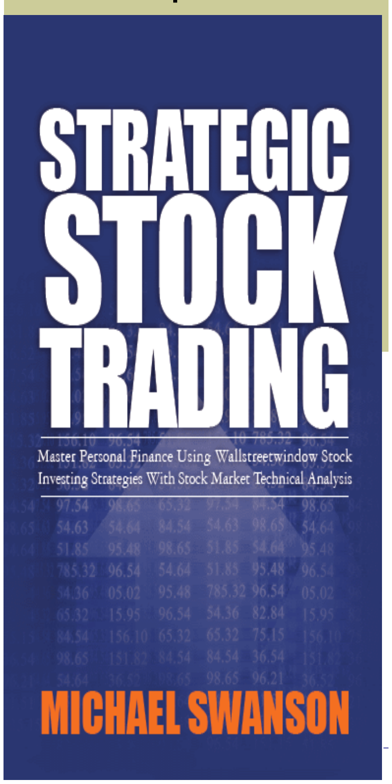
WallStreetWindow Monthly

Stock Market Barometer

Quote of the month:

“"The four most dangerous words in investing are: 'this time it's different.'" - Sir John Templeton



The Most Influential Financial Newsletter Read By Over 500 Hedge Fund Managers and Thousands of Elite Investors ~ April 1 , 2014

Always Too Late, Always Too Slow —Mike Swanson (04/01/2014)

We are in what is going to be a very difficult time for the average investor. Most investment newsletters and talking heads you see on CNBC like to tell you that making money in the market is easy.

Well, I want to tell you today that this year is going to be incredibly difficult for most people to make anything in this stock market. The easy and big gains came last year.

The problem is most people are always too late and always too slow when it comes to adapting to changing stock market conditions. One big reason why is that they are afraid to make a decision in fear of being wrong when others will be right.

So they become afraid to sell stocks when they are wildly overvalued, because the stock market could go up without them. If they sell and tell others they sold then people will think they are a fool. What’s worse others will make money without them and their brain can’t stand that. So they just hold in fear that if they don’t they’ll make a mistake. If they get worried and call their broker or investment adviser they’ll be told to hold and to sell is stupid, because “in the long” run stocks always go up.

But they’ll be talking to someone who is just as afraid to make a decision as they are and stands to lose their job if they get bearish and the stock market goes up anyway. So the investments advisers, stock brokers, and Wall Street suits are bullish all the time. They told people to hold into oblivion in the 2000 tech bust and again in 2008 market crash. They wiped out clients accounts and will do it again when the next bear market hits, because they are too afraid to do anything else.

In bear markets the masses hold all of the way down. And when everyone is bullish they are bullish too, because they cannot go against the crowd. They believe what the TV tells them to believe and they worship the talking heads. They are always too slow to adapt to changing market conditions and do so when it’s too late.

They CHASE and CHASE the fad of the day and never look at valuations or real fundamentals. When a stock goes up so much that it is clearly overvalued, or the stock market as a whole does, they may get a little nervous, but as soon as they hear someone on TV tell them that valuations no longer matter, because of some crazy reason, than they simply believe.

So in 2000 weeks before the market top I got scared of the stock market. I was sitting in someone’s house talking to them telling them I was worried. They told me the stock market will never go down again, because Alan Greenspan won’t let it. It then fell into oblivion.

In the summer of 2008 I went short the market in August into the market crash. I told someone I was worried, because the banks were bankrupt. They told me that it’s simply impossible to think that Wall Street banks could be so stupid. Steve LIESman said everything was fine.

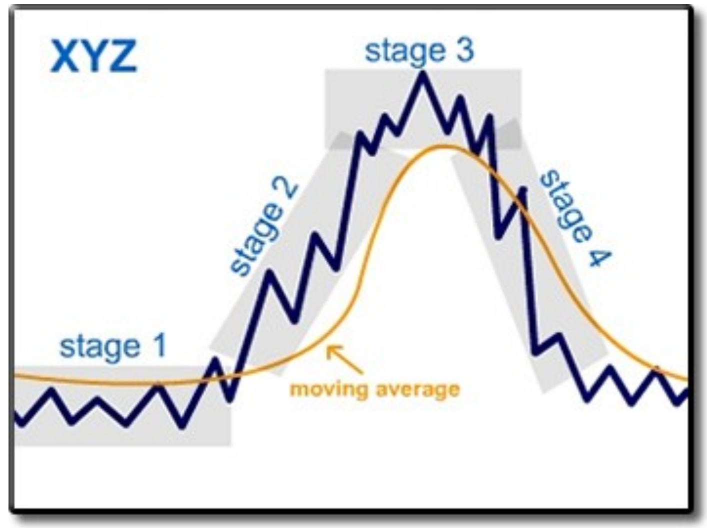
And now if you doubt the market you will be told that Janet Yellen will never let the stock market drop and that valuations don’t matter, because interest rates are zero so people have no choice, but to buy stocks.

And as long as the stock market is in a bull market the bulls are right. But when the day comes that the stock market goes into a bear market the masses will be too slow once again to adapt to the changing market conditions and by the time they do most people will be wiped out, because it will be too late.

I am sending you this April monthly newsletter a few days before the start of April, because you are not going to be too slow or too late. You are going to understand what is going on in the stock market.

I am not trying to tell you that we are in a bear market. I want you to understand though why I think this is going to be a very difficult year for people involved in the stock market. We are in what I believe is a stage three topping market. In stage three tops market participation grows more and more narrow. Fewer stocks participate in rallies. As the topping phase goes on multiple sectors begin to roll over and go into bear markets of their own and people’s focus becomes fixated on just the few hot stocks and sectors left going up.

This is exactly what has been happening this year. But right now what is troubling is that the sectors that were leading in the first few months of the year have fallen apart in March. The biotech sector is now



lagging the market. So are the Internet social media so called "monster momentum" stocks such as Facebook and Yelp. It's all a sign that we are in a stage three topping market.

During a stage three top the upward momentum in the long-term 150 and 200-day moving averages slows down and they eventually flatten out. That's what is starting to happen.

What makes these type of phases difficult to make money in is that they tend to fool everyone. People see breakouts and think they are the beginning of some giant new "secular bull market" and buy and then discover a few weeks later that they got fooled as the market dumps. Short-sellers and bears see declines and get fooled into thinking that they represent the beginning of a bear market or a crash only to see the market bottom and bounce back up.

At the start of last month when the market made new highs I got emails from people sending me links to articles by people claiming that we were actually at the start of a brand new bull market.

They claimed that the stock market bull in 2009 ended during the flash crash a few years ago and therefore we are just a year or two in what they think is a new one. They claimed that the new high set a few weeks ago represented the start of a new giant rally that would last for years on end. The argument is absurd, but people who are bullish in stage three topping markets will believe in anything. They'll believe that buying Facebook at over 100 times earning makes sense, because Janet Yellen and President Obama are there. So this time is different.

Sideways markets cause people to churn over their money and get tricked by fake moves. This seems to me to be exactly what is going on in the stock market now even though almost no one recognizes it.

You can recognize it though by understanding simple stage analysis. The most important thing when it comes to your investing and trading is knowing what stage the market is and then adapting your trading and investing to that reality. The biggest reason why most are too slow and too late in this game, is because they don't do that so they cannot comprehend the picture on the top right of this page.

These type of stage three market environments can go on for months and this will probably continue for months on end too.

Personally I do not like to get involved in these type of markets. I rather go and look for a market that is in a real position to invest in for the long-run or in a more defined trend. That is why I changed my focus to investing in commodities and metals and mining stocks in February. If you take a look at the commodity research bureau index you can see that it broke through a stage one base a few months ago and is now in a stage two bull market. It's pausing at the moment. The best way to make money in a bull market is to buy on the dips.

Of course the way to make the most money in a market is to buy after a bear market bottom during a stage one consolidation phase that precedes the start of stage one bull market. Very few people do this at all and usually it is only corporate insiders or people who really follow such a specific market or sector very closely who do. They are hardcore prudent investors.

During a stage one consolidation phase almost everyone you ask about the market will be bearish. That's because everyone remembers the last bear market. They either suffered from it so much that it is hard for them to believe in it again or else hear everyone else talk negative about it. And those that aren't negative on the market simply ignore it as they are focused on the markets that are already going up.

Most people are too slow and buy too late to get in at the start of something. I have found that a new bull market has to go up for six months or a year before people will get interested in it. That's what happened when I bought into Greece and Europe back in 2012. I talked and talked about it, but very few people got interested in what I was saying until these markets went up for over a year.

I sold out of these markets in February and moved my money into metals and mining stocks. These are all still making the transition from a stage one consolidation phase and into a new stage two full blown bull market, that will likely last for years and bring tremendous gains to those getting in now.

Now stage one markets are not easy markets to be in either, because you see lots of fake moves up and down until they end. The moves down scare people into thinking a big decline like they witnessed in the last bear market is about to come. They make the bear talkers on TV seem credible. But they tend to lead nowhere and fool the bears. So in December when gold and gold stocks made a new low they simply sat there and turned higher and rallied for several months. The GDX gold stock ETF rallied over 36% from its December low when many though that it was going to make some giant leg down in a crash when it made that low. The bears got fooled and those that tried to bet against gold stocks by going short got smashed.

But the bulls can get fooled too. I bought in February and some more in March and when the HUI mining stock index broke 250 afterwards I thought it could start a new bull market right there. But that rally quickly ended and we have seen a quick pullback in the past few weeks.

Just like the move down in December that pullback is convincing many again that a big crash is coming. So I'm getting emails from people pointing me to articles saying gold is going through 1,100 and everyone in it is going to get killed.

What is happening is that everyone gets fooled in a stage one basing market too just as everyone gets fooled in a stage three topping market. So the bulls get fooled into thinking the rallies are the start of a new bull market and the bears get fooled into thinking crashes are coming on down days when the market is simply continuing to go sideways in a consolidation phase.

The difference though between a stage three topping market and a stage one basing market is that when the stage three ends and a new bear market comes the bulls get wiped out and when a stage one ends and a new bull market comes the bulls that hold make a killing. In stage three tops the prudent thing to do is sell on the rallies and in stage one consolidation markets the smart thing to do is to accumulate shares and dips are great times to buy.

You see if you know what the market phase is in then you know what is eventually going to come so you know what you need to think about and do.

Now it's tough to predict the short-term action. We have just seen a fast pullback in the metals and mining stocks and I'm sure you want to know when it's going to end.

These pullbacks tend to have a pattern to them. The mining stocks tends to lead the action in the metal so when the pullbacks start the stocks often fall first at a greater percentage rate than the metals do. Then as you reach the end of a pullback the stocks fall at a slower rate than the metal does. On the bottom of the chart on the right I have graphed out the relative strength line of the GDX gold stock ETF and the GLD ETF that owns gold. You can see how on the most recent bottoms this line stopped going down and started to go up as the mining stocks start to perform better than gold. On Thursday this started to happen. This suggests to me that either the mining stocks and gold have bottomed or at the very least are near the end of their decline. They could take off from here or go sideways for a week or two like they did in December first. They could even bounce here and make a new low later in April and then just reverse back up like they did in December.

So I think that despite the fear created by the recent drop that by this point the bulk of the correction has already taken place. I already have a nice position so do not need to buy more at this point, but if I owned nothing at all I'd start to buy now. I like to average in with multiple buy points in order to build a good position in a market I'm bullish on. This is a good one now.

What we know is that we are in a stage one base with resistance on the HUI at 250. On GDX the key resistance point is around 28 and GDXJ at 46. If you like to watch the XAU the number there to pay attention to is 107. These all market the key resistance points that market the top of the stage one consolidation base. Once mining stocks rally through these levels they will end their stage one basing phase and begin a full blown stage two bull market. We saw a brief rally attempt through these levels in March that failed. But it is only a matter of time now.

It could be what we are seeing in the mining stocks is the formation of a reverse head and shoulders pattern. These occur when a market makes three lows. The second middle low is the lowest one and it exists between

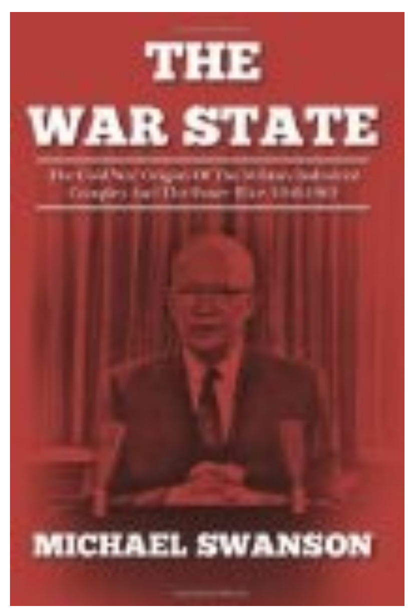
two rallies. It's a valley between two hills on a chart so to speak. The two rallies on the left and right of the ultimate low are usually of similar size and duration. If this pattern is what is playing out with mining stocks then we'll see them breakout in June and July. They'd turn back up and flop around for a few months and then just takeoff in the summer.

But it's hard to predict how things will play out exactly. The stocks could just turn and base for a week or two this month and then just take off. What we know is that the breakout is coming and we can evaluate the short-term moves as they occur.

It's the early bird who gets the worm. In the end the masses won't really get into the commodities game until they have already gone up for a year and gold is practically at new all time highs. Then they'll hear CNBC talking heads talk about it again. They'll even hear their neighbors start to talk about it. Then they'll start to get in. But the prices will all be much higher than they are now.

If you are looking for a simple way to play the metals and mining trend than you may want to check out the Central Fund of Canada. It trades under the symbol CEF in the United States and has 60% of its assets in physical gold and the rest in silver. It's also currently trading at a 5.9% discount to net asset value.

Yes that means its trading less than its net worth. That's because of all of the bearish sentiment still among the crowd and the extreme selling that occurred in metals and mining investments last year. It means its an incredible value play. In fact I expect we'll eventually see it trade at a premium to its net asset value in a few years. I do have some of my money in it.



As each week goes on I'm going to continue to look for good mining stock ideas.

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