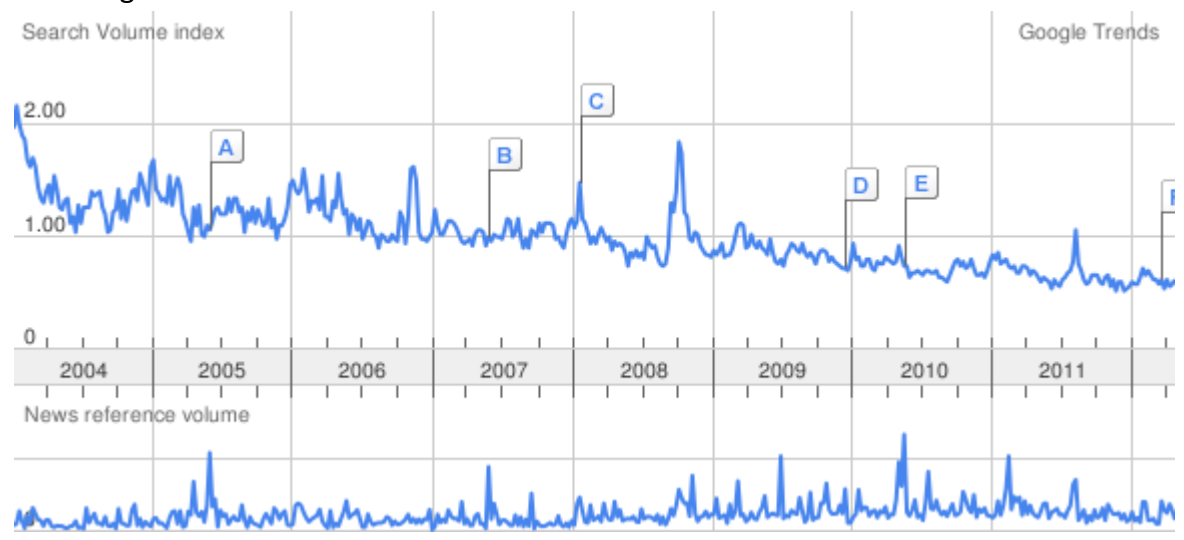


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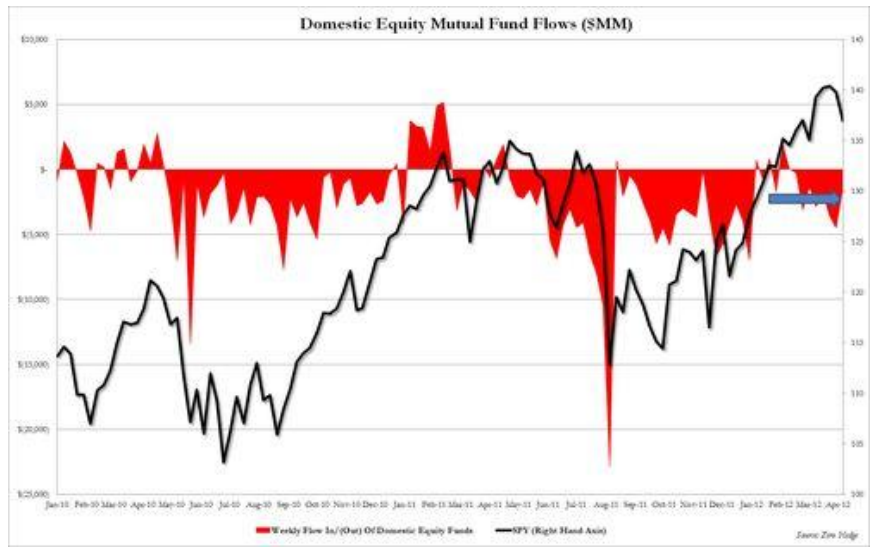
Monthly Newsletter 05/01/12

## The Individual Investor Is Dying - Mike Swanson

Where is the individual investor? That's something I have been wondering about for the past few weeks. People seem to be losing interest in the stock market judging by data I am seeing. I run a financial website and look at Google trends to see what people are searching for on the internet from time to time.

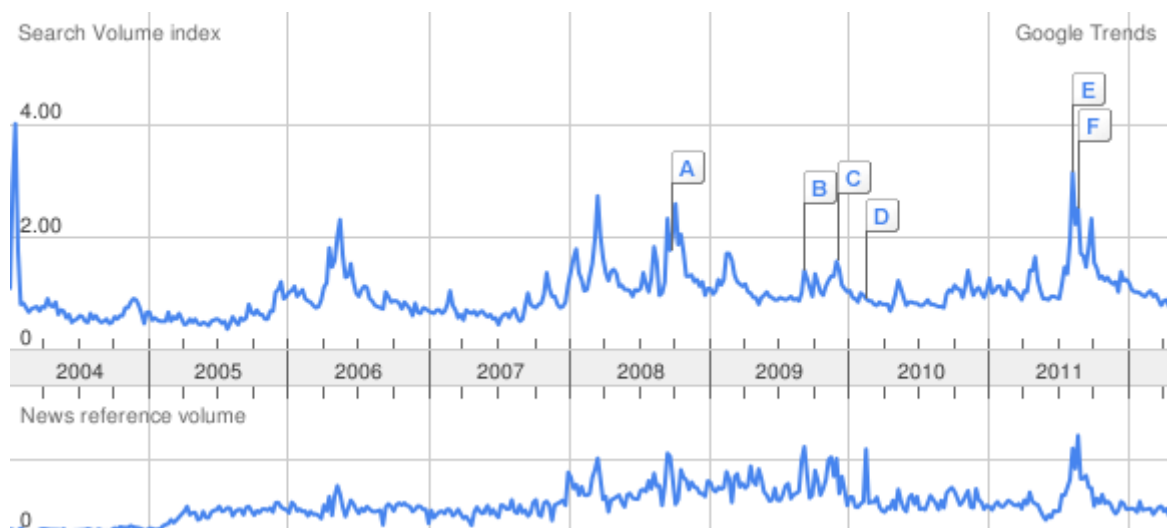


This chart is the number of people that are typing the word "stock trading" in Google search. It is less than half what it was in 2007 and a quarter of what it was in 2004. It has been in a declining trend now for eight years and has even fallen over the past twelve months.



People are also taking money out of the market. Over the past year there has been a steady flow of money coming out of mutual funds, which turns into a torrent whenever there is a correction in the market.

What does all of this mean? Well for one thing people are not very bullish or excited about the market. The market has been rallying now since last October, but the average man on the street if he has money in the stock market at all has been taking money out instead of putting money into it. Very few people are bullish anymore. Last week the Investors Intelligence Survey showed that the number of people bullish on the market fell to 41.9% from its previous reading of 44.1% the week before. At the start of the month the number of people bullish stood at just over 52%. All it took was some sideways action in the market to get enough people to throw in the towel and proclaim themselves to be bears to make the survey results make this shift.



This is the Google trends chart for people searching for "gold prices." Notice how it too has been falling for almost a year now. I want you to also notice though how interest in "gold prices" spiked up last year too. That spike coincided with the exact top in the gold market last year and the wild one month run on silver. So you can see how the masses tend to get interested in something at the wrong time. Yes the masses tend to be the most bullish at market tops.

But they aren't bullish now. Not at all. When the year started I thought we could see a big top this year and then a violent correction or even a new bear market. The apathy of the masses when it comes to the stock market though has made this very unlikely.

There are two big reasons though why people are apathetic about the market. First there are a lot of people who simply need the money. They've gotten hurt by this era of Bush/Bernanke/Obama economic malaise so they have had to sell. Or they are baby boomers who have gone into retirement and are selling to supplement lost income.

Secondly, and more important for our discussion, we're in a big trend secular bear market. Yes the market has been going up now since 2009, but that is a cyclical 3-5 year trend. The 10 year plus secular trend has been bearish. The last time the United States had a secular bear market was in the 1970's and towards the end of it people got bearish on the market like crazy. It wasn't that the market was falling year after year, but that it simply wasn't going anywhere and few people have the patience for a market that isn't going up for them.

That is what has happened in the gold market. We've seen many violent corrections in gold since it started a secular bull market back in 2002. But right now people are getting just as negative on gold stocks as I've just about ever seen them. The XAU/Gold ratio is down to levels seen back in 2008 while the valuation of gold stocks are to put it simply - super cheap. I have been buying big cap gold stocks the past few weeks with PEG ratios LESS than 0.50 paying dividends in the 2-3% range.

But the individual investor is asleep or is simply too scared to do anything when it comes to taking position in the mining stocks right now, no matter their cheap valuations it seems.

I say this, because I have had over ten thousand people read a few of the bullish articles I've written about gold and I've gotten more emails from people who think they are going to fall than who think its a good time to buy too. And I'm not some guy that is just bullish on gold all of the time. Back in November I said NOT to buy into gold stocks and that they would continue to correct. And that is exactly what happened.



Gold stocks have been in a sideways consolidation phase now for two years and are in a major support zone of 400-450 for the HUI.

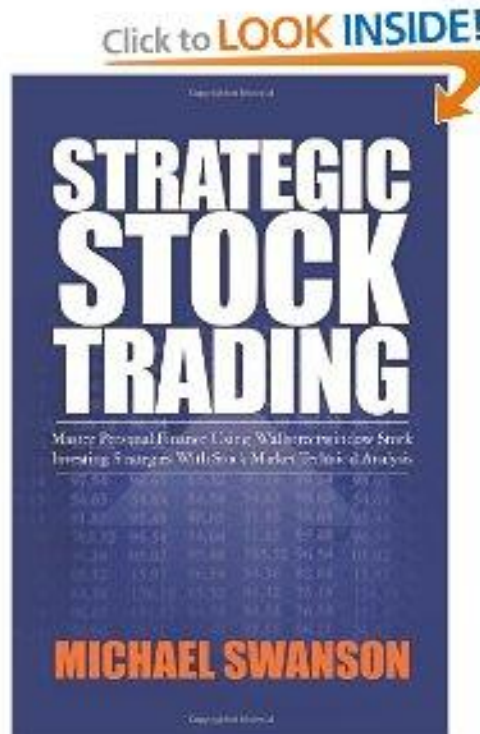
They have been in a secular bull market now for ten years and every time the HUI and XAU has fallen below its lower 200-day Bollinger Band it has led to a great buying opportunity. Combine that with the fact that they are super cheap on a fundamental basis and this is why I've been buying some myself in the past few weeks.

Now I know there is hardly anyone excited about them. The TV doesn't talk about things as buys unless they already have been going up for months and with gold there are bears on CNBC. It is scary to try to be a contrarian so if you are looking for a solid buy signal to bank on I'd suggest using the HUI/gold ratio and buy once it turns up.



The ratio has been in a steady line now for a year as gold stocks have been underperforming the price of gold. What happens is that the action in gold stocks tends to lead the action in gold. So during a big gold correction the stocks at some point start to outperform gold at a turning point in the market. It will take a few months of action for this ratio to turn up by breaking through its upper trendline resistance level, but if it does so it will signal that gold stocks are now going to start to outperform them metal. They'll explode in value.

You see this ratio is at lows not seen since the 2008 crash and throughout this secular bull market the ratio has signalled tops in gold stocks once it has gotten to .60. Well, it would take months and months of rallying for that to happen and higher prices than anyone is imagining for gold stocks right now. I'll be keeping an eye on this ratio for you so if it turns up and breaks that resistance line I'll certainly let you know.



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