



WallStreetWindow

Monthly

Stock Market Barometer

The Most Influential Financial Newsletter Read By Over 500 Hedge Fund Managers and Thousands of Elite Investors ~ May 6, 2015



The Know Nothing Crowd - Mike Swanson (05/06/2015)

We live in funny times. The stock market hasn't gone anywhere in the past few months. As of last Friday's close the DOW was actually in the red year to date. The S&P 500 is only 1% from where it was six months ago. People feel like big gains are happening though. Whenever the Nasdaq gets above 5000 bulls go nuts predicting a giant new bubble run, but then the market simply drops back down. Two months ago everyone on CNBC was hyping up biotech stocks. But all they did was go up for a few weeks and just top out. This is a market really going nowhere, but few times have I seen so many people excited about it. But at stage three tops those that buy in are those with no game plan except buy and believe and when you try to tell them it takes more to be a real investor all they do is get angry at you.

According to the most recent Investors Intelligence Survey over 57% of the people are bullish on the market while only 13.9% are bearish. Up until a few weeks ago you had to go back a few decades to right before the 1987 stock market crash to find so few bulls. The ratio of bulls to bears is at a manic bullish level.

And there is a reason for this. According to the CEO of Ameritrade after he analyzed over 6 million of their brokerage accounts he found that people are now "fully invested" in the market with almost zero cash levels and many people are on margin in order to leverage themselves up.

It might be a strange thing to see so many people bullish on the market when it really hasn't been doing much this year when you look at it objectively, but

"At stage three tops those that buy in are those with no strategy or game plan except buy and believe."

STRATEGIC STOCK TRADING

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that is not how the masses make their investment decisions.

They simply go on their feelings and emotions and they typically base how they feel about any market by what has happened in the preceding six months. So they saw the stock market go up last year without any meaningful pullback and feel therefore feel like it cannot ever pullback ever again. They rationalize these feelings with the belief that the Federal Reserve will make it so and receive plenty of positive reinforcement for this belief system from the Wall Street talking heads that parade themselves on CNBC every day and predict bigger gains to come.

In the past people had a much greater understanding of what was happening with their investments and with the stock market as a whole. Yes we have had big booms and big busts before, but people always had a basic understanding of market cycles. When I got started in the stock market in the late 1990's people understood that internet stocks were a bunch of hype and were not really going to go up forever. Many still lost money, because they still managed to make mistakes, but very few people really bought into the Wall Street propaganda. But today the bubble bulls in the market have completely bought into it. People truly believe that the stock market will go up forever and that market cycles have been abolished. They feel that they live outside of history. But they have no idea what is going on.

A dangerous herd formed in the stock market a year ago. The thing is that this may be the least knowledgeable herd ever to exist inside the financial markets. I say the herd is dangerous because it is fully invested and on margin and therefore will end up causing wild bouts of selling when the next bear market comes. But it is not only dangerous, but dumb too.

Part of the problem is that people today get almost all of their information from TV and that is one of their biggest problems. You see television news shows are not designed to inform you of what is happening at all, but simply to keep you watching. It's designed to do something very sneaky to your brain.

Let me give you an example of what I mean. I was watching CNN last week when these riots in Baltimore were happening. I watched it for about two hours. I saw images of looters and buildings burning. I saw people on TV talk about the hoodlums and the chaos and people denounced cops. It made me very angry. So I turned on FOX and found people on there saying that the cops were innocent and that the blacks were trying to play the race cards and smear white people.

I realized something was happening. Despite watching these TV "news" programs I really had no real idea what was really happening. I know there were riots in the 1960's in Baltimore. The images on TV were terrible. But I wondered to myself if these riots were as big as the ones in the 1960's? The TV really made it look like the whole city was being ruined.

It's a simple question. But TV did not tell me that. In fact they didn't tell me any basic information about the riots at all. They didn't say how exactly they started or what really led up to the riots. There was hardly any real information being delivered at all. I realized everything I was hearing was not geared to actually giving me information, but making me angry at some group.

A few days after that I watched one of the Fox News anchors for an hour and realized that every single 5 minute clip on his show is all about making the viewer angry and furious at some group he is attacking. The guy wasn't telling people anything factual about what was going on in the world or any real "news" at all. He was just inciting his viewers to hate. I figure it's all about getting people to hate some group, then if you hate them you'll like and even come to worship the "anchor" and keep watching. You may even become a fan who tunes in every night. But you won't know anything of substance.

Take ISIS for example. I have not seen one segment on TV explain exactly how this group came into power in a part of Iraq. There is never any context what is happening there.

So with Baltimore I went the next day and read multiple stories in the Baltimore Sun to learn about what really happened there. I found that only a few buildings and pieces of property were damaged. The riot only lasted a few hours and could in no way be compared in size to what happened there in 1968. TV was blowing it up way out of proportion. I also read about decades of police abuse and a horrible relationship the police in Baltimore have with the inner city there. In fact the police had paid out millions of dollars in the past few years in settlement money to people they had mishandled and hurt while engaging in the drug war. None of that was on any of the TV news "programs."

But if you read instead of watch TV you can be informed and understand what is going on. But few read today and most simply enjoy being whipped up by a TV "anchor" who channels all of their insecurities into hating others. Why do you think the ratings for these shows went through the roof leading up to the war in Iraq and why so many people craved that war! And why so many today believe that Iran has a nuclear weapons program even though the CIA says it doesn't and the official NIE does too? Of course TV watchers have no idea what an NIE is. It's all a power politics game. And a game to keep the American people watching these programs so terrified that they will gladly welcome the continued draining away of their national wealth into the construction of useless weapons that have zero utility in the brush wars we are fighting. There is a reason why Lockheed Martin is one of the biggest campaign donors now in Congress. They are building jets that don't fly and making billions doing it. And TV won't report it and most Congressman can't say anything about it, just like they cannot oppose NSA spy programs that erode the US Constitution. There is a reason why Congress voted to slash veterans benefits so they

could move more money to Lockheed Martin jets last year. And they justified it by wrapping themselves into the American flag as being "tough on defense" and talking about exaggerated threats while leaving all of those who actually served the country in uniform out to dry. But TV didn't report it so no one knows.

The fact that Hillary Clinton and Jeb Bush are frontrunners for the two respective political parties shows that the parties are dead. But people love the partisan political shows, because they channel people's anger and make them feel like they are a part of something. I bring this up not to tell you to vote for one person or the other, but to say that the nation is without leadership.

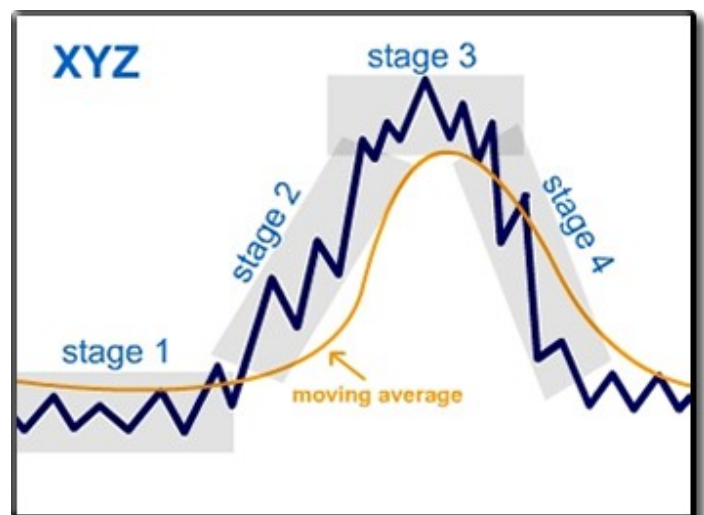
So what does this have to do with the stock market? Well turn on CNBC today and see what you hear about the stock market. You will hear essentially propaganda slogans about how it is going up forever and how the Federal Reserve is doing a great job in the economy. You might catch a clip of Steve LIESman talking about a second half economic boom and coming Fed interest rate hikes that probably will never happen.

The thing is this all the typical American investor knows about the US stock market. No wonder he is incredibly bullish and fully invested right now! He has seen the market go up for six years and for the past two years without any correction and his TV tells him it will keep doing this forever.

He doesn't look at charts or trends or fundamentals. He looks at nothing, but his TV and the talking heads. He has no idea that what is really happening underneath all of this is a miserable economy with no real recovery.

He may know that though in the back of his mind from looking at his daily life, but since the reality doesn't mesh with what the talking heads tell him and his desire to believe that the stock market will go up forever for him he decides to believe in a coming boom and ignore reality. Instead of talking with people in his real life listens to the talking heads and believes what they tell him. He learns to hate his neighbor. To the bubble bull seeing is not believing, but believing is seeing. For the bubble bull financial cycles and history do not exist. And he has no idea what is really happening. This is the life of a bubble bull.

But when you look at the charts it is clear as day that we are in a stage three topping markets. First of all the long-term 200 and 150-day moving averages are flattening out



just as they do in a stage three top. Secondly sentiment is wildly bullish just as it is at a stage three top and finally the internal participation in the market is deteriorating as market leadership narrows and those sectors that seem to lead really get no traction when they breakout. But the stock market bubble head knows none of this, because all he does is watch TV.

Now there are two bull beliefs going on right now. The first is that yes the stock market is overvalued and it is going sideways now. But this is good. The market cannot go up anymore. Instead what will happen is that it will just keep going sideways and the earnings will catch up with valuations.

The problem is that the stock market CAPE ratio is above the highs of 2007 and is at the nosebleed levels of 1999 and 1929 so the economy would have to basically double in size for the earnings to catch up with valuations. It's not going to do that in the next six months.

The second argument is that yes the market is overvalued, but it had a big giant bubble run in 1999 when it topped so that is what is going to happen again. If you sell now they say you will miss out.

Well, that is a once in a lifetime event that is not likely to ever repeat again in our lifetimes when it comes to the US stock market.

Also my public recommendation that I have said on radio shows is a simple one and that is to just raise up a ten percent cash position and put in another ten percent into precious metals. This way when the market falls you will have some cash you can use to buy on the bottom and the gold will go up and help you in the next bear cycle.

I'm not saying publicly sell everything. So if the big bubble run comes that the bulls predict they would still have money in the market that will make them money.

But most people cannot even make some small changes like this to be careful. Now what I'm doing myself and in the Power Investor group is much more meaningful than those two small changes, but these are two small changes anyone can make.

But people are so afraid of missing out or desperate to gamble it up



5-May-2015 12:25pm

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that some are even on margin. So when they hear someone say sell ten percent they take that as a threat to them as they cannot even weather a five percent drop in the market.

But look I do not think we are going to see this final bubble run. Most bear markets top out by simply going sideways over a period of months and rolling over.

That is what it looks like is happening now. The high prices are giving people a chance to buy in at high price level. There is no denying that and many people love the high prices. But they do not know what they are doing.

I think what we are going to see this summer is the S&P 500 slowly drift down to its 200-day moving average and then have a weak bounce off of it and then collapse into a full blown bear market. We will simply have to see how things play out though to see if I am right and if you do see this then you will be able to react to it before the real selling comes.

What is funny is that this is exactly how the top in oil stocks came in last year. The XLE ETF went through a stage three top for a full five months from May to the end of September when it came down to its 150-day moving average and had a very weak bounce for a few days and then collapsed for an over 28% drop from its summer high to December bottom. That is the type of bear market I think we are likely to see. In the next monthly newsletter in June I may talk about the real fundamental news factors behind the next bear attack they cannot talk about on the TV. The most important market right now may in fact be the German bond market.

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