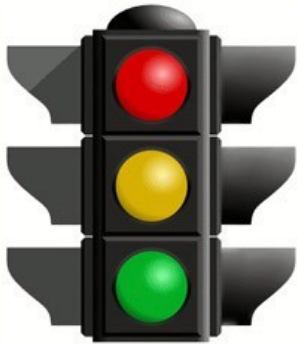




Stock Market Barometer

The Most Influential Financial Newsletter Read By Over 500 Hedge Fund Managers and Thousands of Elite Investors ~ June 3, 2012



How To Really Invest and Win –Mike Swanson

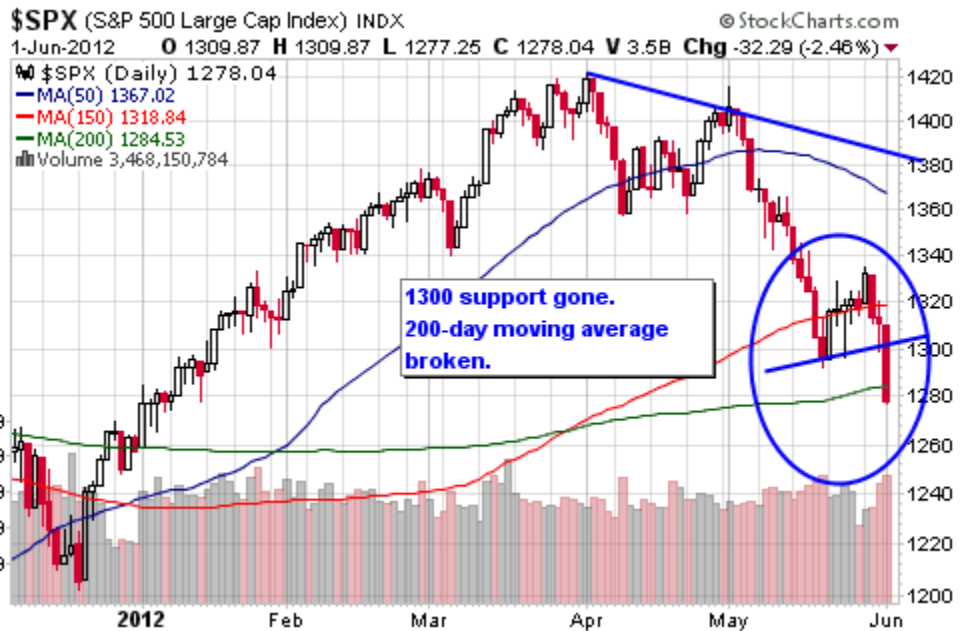
Don't beat your head in! Yes Friday was a real doozer for the stock market. As you probably know the DOW fell 274 points and the Nasdaq dumped 79 points. What is even more amazing though is that US Treasury bonds went to all new all-time highs as their yields plunged to crazy lows with the 10-year bond now yielding less than 1.4%. If you have a mortgage you might want to think about refinancing.

I know what you are wondering - this is brutal; is the selling over yet?

Yes I do think we can get a bounce in these markets. Big moves over a few days usually lead to short-term counter moves, but I have seen no sign that this correction is over and I do not think it will end until we see a final resolution to the Greece debt crisis. Look last week's Investors Intelligence survey

Quote of the month:

“You’re safe”
- Joe Biden



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showed a bump up in the number of people bullish on the market and the VIX only closed around 25 on Friday despite the big drop. In violent corrections the market usually bottoms with the VIX above 30 and sometimes as high as 40. So we don't have the type of panic yet that comes at key bottoms.

A lot of people couldn't believe that the market didn't bottom the other week when it bounced. Now if the market bounces again a bit this week they'll convince themselves this just has to be the bottom. It will bottom when just about everyone throws in the towel.

But I'm excited about buying bargains once the correction is over!

I did a video this week laying out how I think things will play out and some of the things I plan on buying. If you haven't see it yet go here:

<http://www.wallstreetwindow.com/node/6081>

Over 4,400 people have already watched it so far.

I don't want to just repeat myself in this monthly newsletter, because I have some important things I want to talk about with you. I want you to get away from the manic moves going in the market right now and think about investment fundamentals.

You see most people are too scared right now to think clearly. Well maybe not scared. They are anxious and worried. They'll be scared at the bottom. You shouldn't be. I know I'm not.

That's because you and I both know that the panic will come and pass. Now is the time to plan ahead to take advantage of the market.

I've been trading now for over 13 years. And as you grow older and do anything for that amount of time you keep learning new things and growing. I've made a lot of money in the stock market over the years, but looking back I can see how I could have made even more. I have been a trader in the markets who guns for big gains over a few months of time by getting into sectors for 3-6 months. Rarely have I ever held anything for over a year.

When I first started in the market investing made no sense, because at the time Internet stocks were the hot thing and anyone with any sense knew they were a bubble. Then in 2003 I started up a hedge fund and ran it for a few years.

Hedge funds are not geared towards investing and holding things for

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the long-term, because the people who invest in them want big returns every quarter. If you have institutions and fund of funds invest in your hedge fund they'll yank money out if you under perform the market for even

one month even if you have great returns for years. This puts huge pressure on hedge fund managers and causes them to jump in and out of the market constantly.

We live in a time in which the market action is increasingly being dominated by hedge funds and institutional traders while the individual investor yanks his money out due to the economic hardships of our time. As a result there is even more market volatility than there has been in years past and a wild boom and bust cycle almost every year it seems. They call it "risk on risk off."

But most people getting into the market love trading. They love to buy something and then sell it for a gain in a short matter of time. There are some that advocate day trading who make the argument that it is "dangerous" to even hold over night because some bad news might come out.

The reality is the less of your account you invest in any one position the longer you can hold it and the less you have to worry about some sudden news. The more you put in a position and the shorter you hold it the more risk you actually have.

investing sounds safer, but the problem is what most people call investing hasn't worked too well over the past ten years so now no one wants to be an investor.

Brokers and investment advisors say if you just put your money in the market and hold it - and JUST BELIEVE - you will eventually make enough money to retire. This is what Wall Street sells people and people buy into this because they want to believe it. It sounds easy and it's the promise of the American dream.

The people who peddle this line believe it too. But it hasn't worked, because the market has gone nowhere for the past twelve years.

This month I want to share with you what I believe is the best way to build wealth in the markets over the long run and it is a method I've never heard anyone talk about. The real trick to investing is to buy the right stuff at the right time. I'm going to tell you a real investment technique that works and involves little risk.

It's a different way of thinking and it is more important to grasp this now than at any other time in the past year, because some big opportunities to take an investment position are on the horizon. I laid this out to you in the video I sent you last Tuesday.

First I need to show you how important this is. In 2002 going into the July bear market bottom I was in cash and expecting a major bottom in the market - maybe even the final bottom. I watched the market and waited for weeks for my opportunity.

Days before the market I went to the beach and every morning I would wake up before the open and get on the phone with Andy and Dave and talk

to them about the market. I watched CNBC and listened closely.

I was ready. On my monitor I had a whole screen of stocks I was keeping track of. My plan was simple. Buy some Nasdaq calls and sell them a month later for a big pop. As you know when you get in a call and are right you can make a return of hundreds of percent off of your money.

I felt confident that I'd be able to spot the bottom. I'd seen several of them before and I expected we would see some pure panic in some stocks and fear on TV.

The morning of the bottom Maria Bartiromo told people to short stocks. I couldn't believe it. She had been telling people to buy all of the way down and now was telling people to short stocks?! When the market opened of course the VIX spiked up and so did the put/call ratio, but many of the stocks I had on my monitor were down 10%. Some even more.

I saw several solid REIT's, oil, and utility stocks that gapped down so much on the open that they were paying dividends over twenty percent. I never seen that before. I knew this was the type of panic selling I was looking for.

So I bought my Nasdaq calls.

It was one of the best trades I ever made and I'm sure I made the bottom call on the website.

For almost two months the market rallied straight up. But the Nasdaq lagged the other two averages. When I sold my calls I barely made anything. Another problem was when I bought it the VIX spiked up so I was paying a huge premium for volatility and that premium shrank over the next several weeks as the market went up and the fear went away.

Even if none of that happened and I had good return on my options this still would have been one of my worst trades. How can I say that? How can a beefy 300% gain be a horrible trade?

Simple. I shouldn't have been even buying the Nasdaq calls. What was happening that day was a giant investment opportunity that only comes around about once a year.

I was sound fundamental stocks that had fallen to stupid levels thanks to irrational panic selling that were now paying giant dividends. By the end of the day those stocks went up more than the entire stock market did over the next few months and most of them probably never fell to those low levels ever again.

Even if the stocks never went up and just sat there the huge dividends they provided would have beaten the returns the stock market made from then on to the market peak of 2007 and beyond.

Another opportunity like this came in 2009, but I missed it too, because I was too caught up in trading.

But opportunities like this actually come almost every single year in a sector or entire market somewhere.

That's another big canard the brokers peddle - if you are out of the market you'll miss out because it can go up without you. So they want you to be fully invested all of the time.

The question you and I need to answer is how to find these opportunities and how to invest your money in them to take advantage of them.

The first question I answer in my book and hope to demonstrate to you over the coming weeks in real life - in this market - because I think some true investment opportunities are coming. My Tuesday video talked about it.

But one key to investing is to me investing doesn't mean you throw all of your money at something and hope it goes up. That is what Wall Street tells you to do with mutual funds. Put all your money in this fund or a couple of funds and when you want to retire you'll be rich.

No that isn't investing.

When you invest you focus on the price you are paying for something and the value of the stock you are buying. You invest in stocks just like you would in a private business. If you buy into a local business or own a business of your own and try to sell it you'll likely get somewhere between 3 and 6 times earnings.

When you buy a house you look at what is going on in the housing market try to figure out if you are getting a bargain or not. You don't go and buy a house for 200k if all the houses around it are selling for \$150k in the belief that housing prices will go up in time so this is a great thing to do.

You use your brain and think. That is what investing is about.

In stocks that means timing and valuation. Again we'll talk about this more in the coming weeks.

Right now though I want to focus on the second question with you - how to manage your brokerage account.

We all have a tendency to put all of our money to work in the stock market. Wall Street teaches us that if we "invest" all of our money in mutual funds we'll get rich. Or if we just buy and hold we'll get rewarded.

Here is my investment idea. Let's say every year on average there is one opportunity to buy into a market or a sector at a super cheap investment price coming at out of a stage one base or in a panic bear market end that is now poised to start a bull market of its own and rally for several years.

Instead of putting all your money into it, what you should do is make

a simple ten percent investment position. If things work out the value of that position should at least double in two years and it can easily go up more than that. Based on what happens after most countries go into a default I believe the Greek stock market will go up by a factor of four within months of its final bottom, then consolidate sideways for a year and double or triple again.

Sectors and markets do this when they end bear markets. When I first bought gold stocks in 2002 the HUI gold stock index doubled from when I first bought it in a matter of months and rallied over six hundred percent in ten years.

I didn't hold it for ten years though because I was putting all of my money into it and didn't want to weather that much volatility in my account when it had its corrections as the gold stocks have done since last Fall.

That's one reason why I believe a ten percent targeted investment in a sector makes sense. That way you won't feel like you have to sell it once you get a big return or because you are worried about losing money. At the most you'll be risking 50% on your initial 10% position if something truly catastrophic happens for a 5% potential loss for your whole account.

Now if the position takes off and gives you such a huge return that it now takes up a large portion of your account it becomes prudent to sell it in order to maintain diversification and so you don't become at the mercy of it.

For example let's assume we put ten percent of our money in Greek stocks and hold them for five years for a four hundred percent return. At that point it would make sense to trim the position size back down to ten percent and probably even sell some of the Greek stocks completely and keep only those paying dividends.

This all sounds good so far and not out of the ordinary. We're talking about taking 5% risks on investment positions in the hopes of making 30-40% long-term capital gains with 10% of our money.

Now here is where my thinking gets unorthodox.

What if you did this only once a year?

What if every year you simply waited for a big market correction that occurs just about every year before you took your 10% position. Once a correction happens all you'd have to do is look at what global markets held up and what US sectors held up to find a place to put a 10% investment position on.

Time goes by fast. Next thing you know five years would go by and you'd have put half of your money in several wonderful investment positions that you had bought from cheap levels. You'd completely beat the

stock market with a simple strategy that involves almost no risk.

Of course odds are you'd be able to find more than one sector to invest in a year. My guess is we are going to see opportunities in the coming months in Greece, gold, shipping tankers, and possibly emerging markets this year over the next few months. Maybe some US market sectors too.

But for discussion sakes I just want you to think about the power of one new investment position in one sector a year and what it could do for you.

What would you do with the rest of your money? I don't know. If you trade then you trade it. That's what I'll probably do for now. If you like mutual funds you buy the mutual funds. Maybe it's CD's. Whatever. What I'm trying to show you is how if you built an investment portfolio over a few years in several sectors how powerful it could be.

I've never heard of anyone advocating this before.

One problem is that Wall Street and institutional investors can't do this, because what I'm talking about requires being patient enough to wait for these opportunities to come and to work your money slowly into them over a few years. Wall Street wants you fully invested so that it can make its management fees off of your money.

And if you run a hedge fund you can't really do this either, because it may mean being mostly out of the market at times or being on the sidelines with most of your money at first - and investors can't stand that.

As for individual investors they just follow the herd and do what everyone else is doing.

So I think I've laid out something of a paradox for you. I think what I've described is the best investment strategy I can think of that involves almost no risk and yet it's one that almost no one can do.

Well I'm going to do it. I pretty much took all of my money out of my brokerage account in the summer of last year and am now starting to put it back into it. This is how I plan on investing my money going forward.

At times I may put all of the money to work, but I'm going to focus my account on building core ten percent investments. Money used outside of those core investment will just be trades. I expect though that over time it is my core positions that will make all of my money.

In the video I did for you Tuesday I talked about some of the potential investment possibilities I see lining up in the market and how I think stuff will play out over the next few months. If you haven't seen it yet go here to watch it:

<http://www.wallstreetwindow.com/node/6081>

This is the time to be focused on the market and get ready.

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