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Stock Market Barometer

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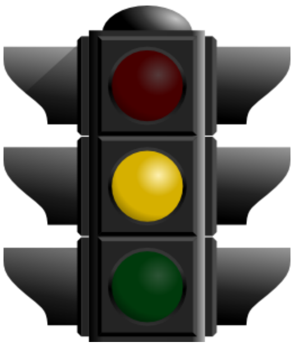
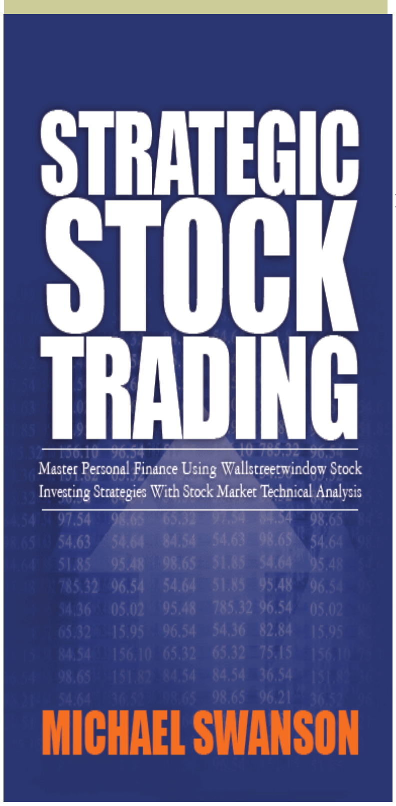


TREND ALERT — WATCH FOR BROAD US STOCKMARKET RALLY TO MAKE CLIMATIC TOP



Why The Masses Will Miss The Real Buying Opportunity of 2014 —Mike Swanson (07/01/2014)

It is the first day of July. I believe when we look back at the end of the year that this may prove to be the most important month of the year. Many people are on vacation right now and most investors and stock market players that are not on vacation are completely asleep anyway to what is lining up this month.

For one thing metals and mining stocks are getting into a position to breakout through their stage one base and begin a new bull market. They rallied hard in June off of their May lows and are now pausing in a small range with very low volatility. It's setting them up for a breakout this month that will clear their March highs and upper 200-day Bollinger Bands and launch them into a new bull market. This makes July one of the most important months of the year for them.

At the same time if you recall back in May I said I thought the stock market would rally up into July and make a peak. It did indeed rally and that rally has been on very thin volume and bullish sentiment has gotten wildly out of control. The divergence between the number of bulls and bears in the Investors Intelligence survey is as great as it was at the top of October 2007 and a few weeks before the 1987 stock market crash. Whether or not we are going into a new bear market before the year is over is one question, but whatever the case it certainly seems that things are lining up for a very nasty correction once this current rally ends - and we have to keep our eyes out for that in July while everyone else is asleep.

But at the moment it is gold where the big money is to be made and that is why July is so important for metals and mining stocks. How many people do you know are hot on them right now? How many people do you know are bullish on them and how many people do you know see any risks at all in the US stock market?

This month I'm going to focus on these things for you. I was going to go out of town this month, but canceled all travel plans in order to be on top of things. This is it and we cannot miss the market action this month. I'm going to put together several reports and presentations about all of this after the weekend. Look for these things. In them I will focus on how you can profit from this. Right now though I want to focus on why so many are going to miss all of these things as they happen so that you won't.

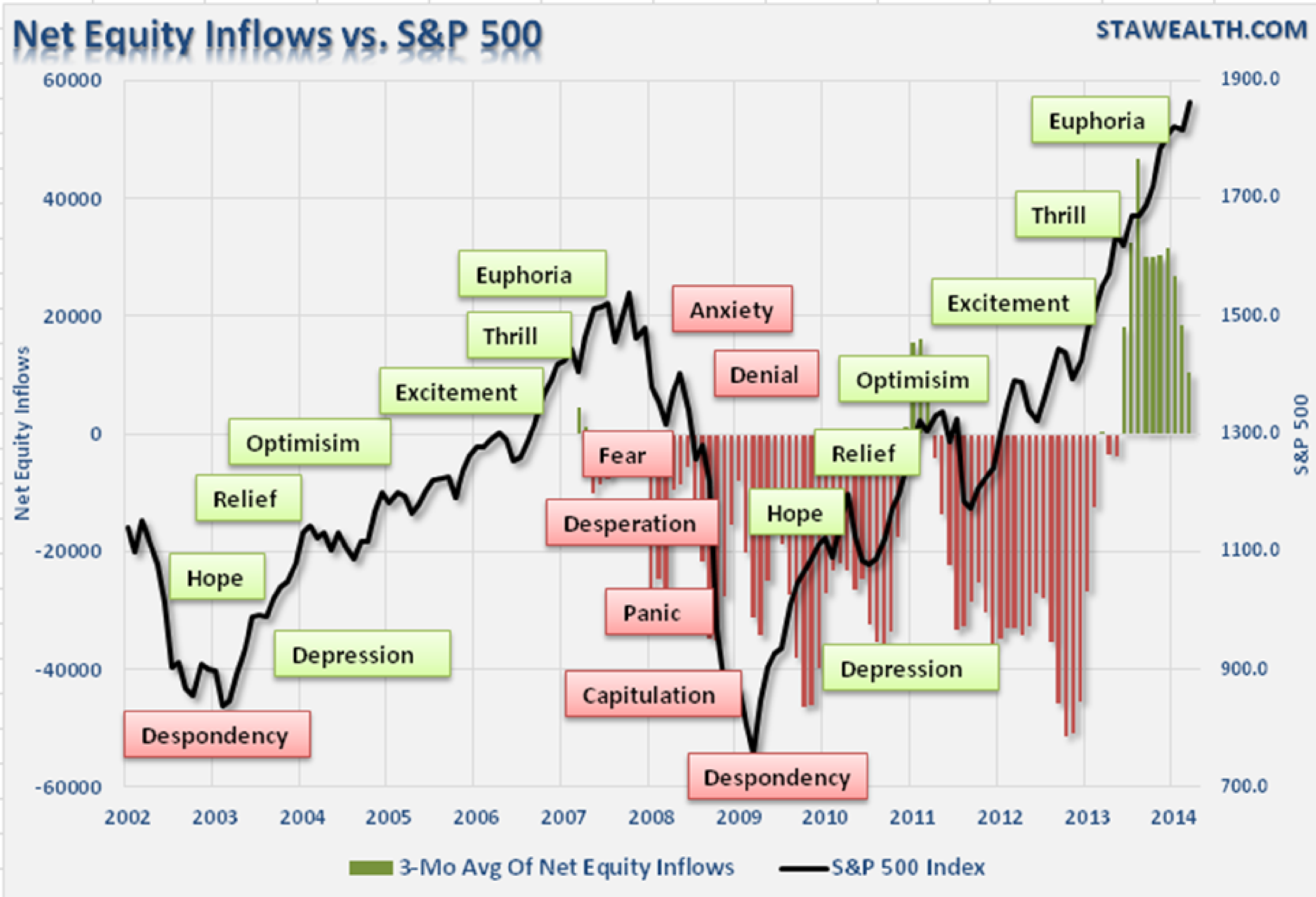
It's easy to talk bad about the average American investor, because he has made so many mistakes over the years it's absolutely ridiculous. Most of the people in the United States stock market are baby boomers who got in during the 1990's. They played the tech boom and saw stocks go up a lot. They made big returns, but instead of selling when things got crazy they convinced themselves that the Internet bubble was real. Their TV's told them it was so and they wanted to believe.

So instead of selling and taking their profits when that 2000 bubble popped they rode everything down. Then things bottomed out in 2002 and went back up and they made their money back. Then when the real estate bubble popped and the stock market got wobbly they ignored everyone who warned them that they needed to get out and got trapped in the stock market crash. And yes the signs were perfectly clear that the stock market was going to crash and big trouble was coming. And if you were listening to me back in the summer of 2008 then you heard them over and over again before the crash came from me. And there were others warning of it too.

The chart on the next page shows though that after the crash most Americans actually got out of the stock market after the bottom in 2009. The crash shook them up so badly that they simply got spooked out every time the market dipped for a week or two even though it was going up year after year. The average American took more money out of the stock market than they put into it from 2009 until the end of 2012.

Many of these people who got out of the stock market I'm sure never got back in and probably never will. They moved their money into CD's either because they decided to give up on the stock market for good or else they needed the money due to the bad economy and for retirement funds. But many got back in these past few months. Like James Cramer said - the small fry is back in the game.

But those that did get back in did so after the stock market went up



for five years and became overvalued by any fundamental valuation metric - my favorite is the cyclically adjusted P/E (CAPE) ratio that measures out the average P/E of the S&P 500 over ten years and adjusts it for inflation - they got back in. They piled in, because now after years of gains they became convinced that the stock market was good again and would continue to go up for the rest of their lives. Their TV's told them it was so.

These individuals that have gotten back into the US stock market in the past year have no real strategy to what they are doing. Oh yes I'm sure there are some smart people trading and making some good hit and run trades, but anyone who just piled back into mutual funds and is buying and holding in the US stock market after it has gotten overvalued again and five years into a bull market has no real investment strategey at all.

In order to invest for real you have to look at the price you are paying for earnings. These people are not doing that at all. What they are really doing is reacting to the fact that the prices have gone up and that's it. That doesn't mean prices cannot go up more. Maybe they will go up this month and next. Simply buying, because prices have gone up for several years is not a real investment strategey. It can be a trading strategy, but it is not an investment strategy.

I got into this investment game in the late 1990's and vividly remember the bear markets of 2000 and 2008, because I was actively trading in them and writing about them. The 2000 bear market did not really wipe a lot of people out, because it was the tech stocks that got smashed the most. Most people did not have all of their money in them and the DOW hung in there for the most part until the very end of that bear market. So it only really fell for six months or so and then it quickly recovered over the next few years.

In the 2000 bear market I did get emails from people who wiped themselves out financially, but most of these emails were from young people who were working at internet and tech companies that went bankrupt. I remember one from some girl that was around 25 years old that said she had several hundred thousand dollars in some tech company that she worked for. It went bankrupt and she lost her job. Her attitude was "oh well" I have to start over.

In the 2008 bear market I got many emails though from people who really got devastated by the crash, because everything fell. The banking system demanded to be bailed out and many household name stocks went down 75% or more. Many became single digit stocks. The crash was brutal and many did lose their jobs too and needed the money they thought was safe in the stock market.

There were a lot of lessons to be learned from all of this and you could fill up an entire book with them. So let's just mention the single most obvious one and that is that the US stock market can go up a lot and down a lot. People have now forgotten that down a lot part.

What is amazing to me now is that so many people have failed to learn a single thing from these two bear markets. It is as if they have been investing their entire lives putting their hard earned money into the markets and just never have wanted to learn anything from what they have done to make sure that the stock market doesn't ever hurt them again like it did in those two bear markets.

This bull market has convinced many that they will never face another stock market drop again. We have seen the formation of a wild and dangerous herd in the US stock market now and frankly it is a very frightening and irrational herd.

I knew that the past two bear markets were coming before they hit and even though I made money in them by betting against them they were still a tough time for me, because it was not fun to have the knowledge that the country was going to go under thanks to its mismanagement by its leaders. And it was even worse to worry about the many that were going to suffer from the bear attack. I tried to do what I could to warn people, but few listened and it was upsetting to me that so many didn't.

Now I am not worried as much at the moment about the stock market as I was at those times. I'm not saying that we are facing a crash. But the stock market is overvalued and I know that so many of the people that have recently gotten in it will never sell and will end up wiping themselves out when the next bear market comes. We are in a very high risk and low reward moment for buying into this stock market.

Like I said it's easy to look down on and be hard on the average investor who is all bulled up about things thinking that the stock market is just going to go up forever, because most of these people sold out after the 2008 crash and then got back into the market in the past twelve months. People make investment mistakes. Everyone makes them and the real secret to being successful in the stock market game is to learn from your mistakes. You build off of that and then you learn how to build real wealth and not just put yourself at the total mercy of what the stock market does.

But few want to learn, because they are simply lazy and they do not want to have to make decisions. You see if they do what everyone else does and lose than it's ok. But if they do something different than the herd and lose when the herd makes money they cannot lives with themselves. So they do not want to make any decisions for themselves or have any responsibility for their actions.

They simply take comfort in being a member of the herd, but in the end they will get the same results of the herd. And since this is a dangerous herd marching towards a cliff they will fall into the next bear market with the heard and financially die off. In five years most of the people now in the stock market will be eliminated from the market forever.

It is now July and we have started the summer. After summer ends fall will be here and then it will be winter time. The cycle of the seasons has never stopped. And after all bull markets there is a bear market. The cycles of the financial markets have not ended and it's insane to convince yourself that there will never be a bear market ever again. The ones that have the biggest heads now are the ones most at risk. Pride and arrogance come before the fall.

We can sit here and point out all of the mistakes people make. People like to buy high and then find themselves selling low. They get nervous and sell out on bottoms and get greedy and buy at tops or refuse to sell. They fail to control the risk in their account. There are other things they do. We have all made mistakes and the average person in the markets makes so many we can't even list them all.

However I want you to step back for a second, because I think if we do that we can actually see something very important that few understand. I believe that almost all of the bad actions people make when it comes to their investing is merely the result of one big important mistake that almost every single person makes. It is this one mistake that caused so many of the masses to sell out when it was too late after the 2008 market crash and in the years following the bottom and to get trapped into buying into tops.

Yes I know that they didn't know how to read market trends and only knew their pain. Their brain got anxious and caused them to fear more pain so they sold and did so even as a new bull market started. But this is an action. This is a bad action caused by a much bigger malady. It is a problem that is the source of most of the manic investment behavior that borders on bi-polar mental illness for most individual investors. It is this one behavioral pattern that causes so many of their problematic actions and attitudes about money, investing, and even themselves. Making the same mistakes over and over again makes one feel like a fool. But as you learn more and more you become more and more confident about investing. People grow into investment winners. The losers simply never learn and therefore never grow. It isn't all their fault.

What people do is make one decision - that they are told is what they should do - that gets them into a position that makes it practically impossible to invest wisely and causes them to do one dumb thing after another. What they do is dedicate their entire financial life to one financial market and end up hoping that it goes up forever for them. It could be bonds or stocks or even gold - but whatever it is most people just dedicate themselves to one single market their whole entire life and that's their big mistake.

If you are an American than all your investment advisers, stock brokers, and the TV talking heads tell you that all you need to do is invest in the US stock market and believe that it will go up forever for you. Most brokers will take your money and dump it into a mutual fund that they get trails off of. If you ask them about doing something different like investing in markets outside the United States or in a different asset class like commodities they usually tell you that's too risky to consider, because they know nothing about those things and fear losing control of your money if you decide to do something different. So when the bear markets come the advisers just tell people to hold on no matter what and say things will go up forever.

But no market goes up forever without ever having a bear market hit eventually so when people do this and a bear attack comes they get crushed. If their brokers and investment advisers were so smart they would be rich themselves, but few of them are - which is proof that the strategy of buying and holding only the US stock market and never selling does not work and these people do not know what they are doing.

And in fact the most successful institutional investors do not do this at all. The biggest endowments in the United States invest in markets all over the world and in real estate and commodities too. They only keep a portion of their money in the US stock market. You can invest like they do through ETF's. If you want to learn more about what they exactly do and how you can invest like them get the book The Ivy Portfolio by

Mebane Faber.

If you want to be a long-term successful investor in the financial markets than you must go beyond one market. You cannot just dump all your money in one market and hope it goes up forever. You must look at more than one market. And simply putting your money in US bonds and US stocks is not enough, because you are still tying yourself to one financial market in the end. What happens if there is bond trouble one day that smashes the stock market?

The thing is if you invest in multiple markets and asset classes during the course of your financial lifetime what will happen is that you will open yourself up to figuring out when is a good time to invest and when are things worth selling. You'll become a student of market cycles and understand that valuations do matter in the long-run. You'll look for real strategies to make decisions with.

You'll understand how John Templeton was able to build a fortune by buying into markets that were cheap that provided the opportunities to buy many stocks with low valuations and high earnings growth potential by sporting low PEG ratios.

You'll learn how to identify the end of bear markets and the start of new bull markets. There is almost a new bull market every year and you'll learn to be on top of things, because you'll keep your eye on multiple markets - and therefore in search every year for the best places to put money to work that provide the best rewards for the lowest amount of risk.

You will no longer be a part of the mass herd that chases stocks. And you'll stop making their mistakes. What happens is that when someone invests only in one financial market their entire life what they end up doing is devoting their whole well being to that market. They become a captive of that market and put themselves completely at mercy to it.

In such a position they lose their objectivity and can never get themselves to buy at the right time and never can get themselves to take profits and sell. When things are overvalued or get risky they just rationalize holding by telling themselves that valuations do no matter. To justify staying in their one favorite market they have made themselves financially and mentally dependent on they talk themselves into believing that all other markets are too risky and dangerous to be a part of. If they continue this line of thinking long enough they will even come fear the rest of the world and hate it as they come to tie up their own self-worth and identity into the stock market they have devoted themselves too.

It is this big mistake of devoting your financial life to one single financial market that is really the root single causes of all the problematic behaviors that most investors engage in and in the end what really ruins people in the financial markets. Instead of spending time researching stocks and learning how to invest their money wisely most people who fall into this trap merely spend their time looking for people who tell them what they want to hear and believing in fantasies.

In 2000 they believed that a "new economy" represented by internet stocks had ended the business cycle and now they believe that valuations do no matter, because the Federal Reserve will never allow another bear market to hurt them ever again. Even though they experienced two bear market cycles in the past fourteen years they now believe that financial cycles have been abolished for the US stock market.

The point of all of this is that all you need to do to separate yourself from the herd is to pay attention to more than one financial market. Look beyond the US stock market. This does not mean never invest in it, but look at other markets for good investment points too.

In the end the best investment buy points come at the start of a new bull market. In the United States that was way back in 2009. Five years after the start of a bull market is not a good investment buy point, but a dangerous time to make new investment positions no matter what the TV experts tell you.

It appears that this month we are about to see a new bull market begin in gold. It is our chance to get in at the start of a new bull market. If you have never done that before it is your chance not only to make a lot of money, but to learn how to invest for real at the start of something big instead of just being a part of the herd that always gets in late to the game. If you have been someone that only has ever invested in the US stock market it is your chance to break that pattern.

I'm really excited about it, because rarely do things like up like the metals and mining stocks are now. I plan on putting together some videos and reports about it and how to invest in it and take advantage of it for you next week and in the coming weeks. These will probably be the most important things I put together for you all year and I do not want you to miss out on them. Look out for my emails.

In July I launched a brand new weekly podcast show. Each new episode will be released by Friday at 3PM EST. That way you if you are driving home Friday evening you can listen to it in your car you can listen to it at your leisure over the weekend before the Monday opening bell. If you want to support the show and help it grow get a subscription to it through Itunes by opening up your Itunes app and then going to podcasts and doing a search for “wallstreetwindow podcast”. You can also subscribe to the podcast RSS feed by going to WallStreetWindow and then hitting podcast in the top navbar. If you subscribe via RSS or Itunes you also will get notice of the shows immediately before emails are sent out about them. This show is for you.

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