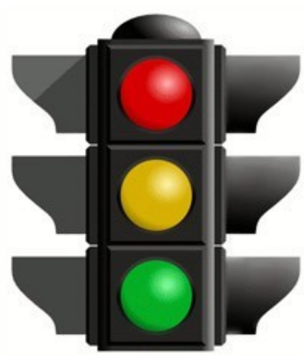
WallStreetWindow Monthly

Stock Market Barometer

The Most Influential Financial Newsletter Read By Over 500 Hedge Fund Managers and Thousands of Elite Investors ~ July 8 2015



July To Be A Key Turning Point In Stock Market History - Mike Swanson

When we look back on this month and the next 60 days in the years to come they may prove to be one of the most important moments in our investment life-times. I say this, because I believe we are now in one of the most important times of our lives in the markets.

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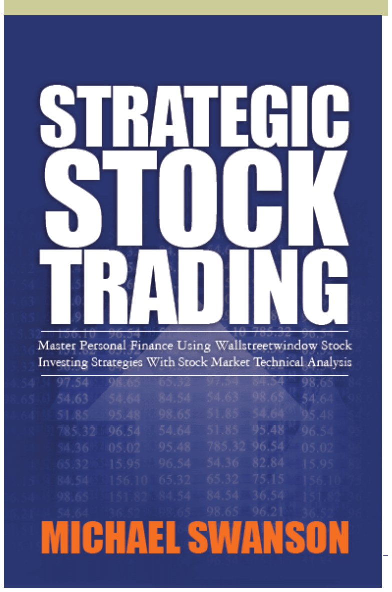
We have all of the signs of a key turning point not just for the US stock market, but many financial markets and entire asset classes. I started trading and investing in the late 1990's and I saw several such moments, but they only come every few years.

One was the market top formed in the months of March and April 2000. Those who didn't sell then got ruined. Another was the start of the gold bull market in 2002. Then came the start of the stock bull market and real estate bubble in the first quarter of 2003.

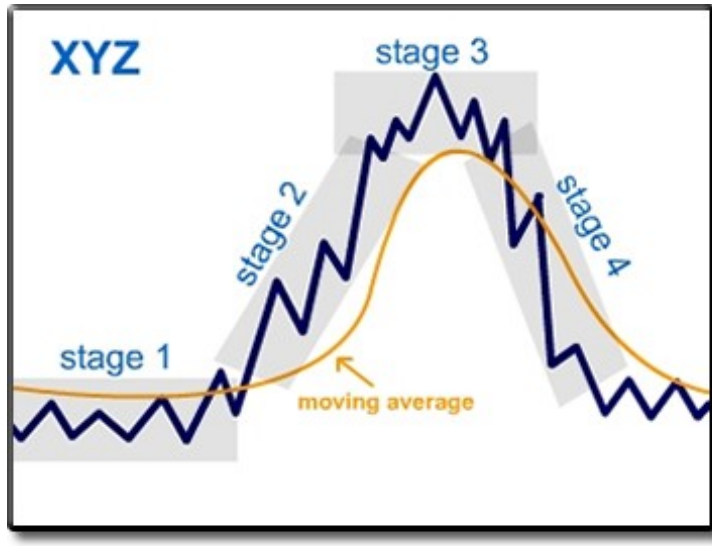
A big moment then came in the months of August through October 2007 as the US stock market completed a stage three top and then went into a bear market that resulted in the crash of 2008.

And then finally a big turning point came in March of 2009 as this last bull market began.

All of these were critical turning points in the markets that left many people behind. Some missed bull markets and some missed opportunities to get out and escape huge bear attacks.



But few played any of these moments right and I did not play them all right myself, but I have learned



from my experiences and mistakes and it is time for you to apply what you have learned now to the markets in a big way.

I'm also going to talk about the short-term market action in a moment, because everyone is obsessed with that, but first I must tell you what I think is happening in regards to the big picture and why these summer months are so important. We are witnessing the completion of a stage three top in the stock market that is going to lead to a new bear market.

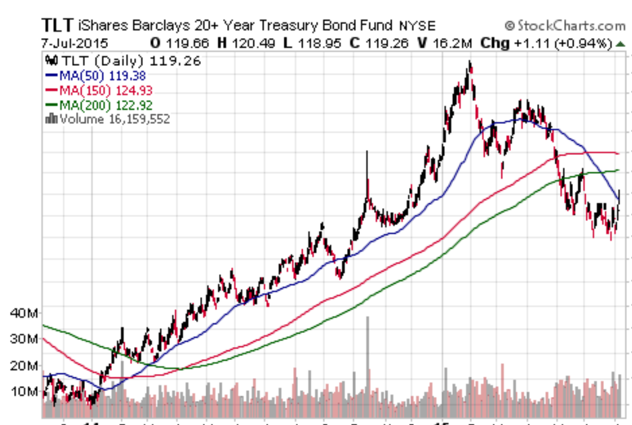
I have been warning that this moment would come for a year now. I have told people that I could not pick out the exact top and they should not expect to be able to do so. Do you know anyone who sold out at the top in 2007 or this past May on the day the S&P 500 topped out? I do not and that is why I have said not to worry about getting out at the exact top and have said to the general public in interviews that the prudent thing to do is raise at least a 10% cash position and move some money into gold as eventually it will go up into a new bull market as a result of the mess that is to come and will act as protection against inflation and debt disaster.

Now with the Power Investor Model Portfolio I have done more than just make a 10% cash reserve position and put 10% in gold. In fact one 20% ETF long position in the account just broke out into a new bull market last week. But the Power Investor Service is for people who are willing and able to make active changes in their portfolios and are truly serious about what they are doing. And let's face it most people in the US stock market have the mentality that all they need to do is buy and believe forever. But this is going to change. People are now starting to lose money, but the losses are not yet big. Stage three tops come to an end with a big bout of market volatility in which often everything gyrates wildly and most people lose for a period of time, but once the stage three top is over new trends take over.

Of course the obvious dominant trend is going to be a bear market for the US stock market. The end of a stage three top comes with a rapid deterioration in the internals of the stock market as fewer and fewer stocks go up and most stocks actually go into bear markets by falling below their 200-day moving averages ahead of the market averages doing so. As of yesterday there are now more stocks trading on the NYSE below their 200-day moving averages than above them and as you can see from the chart on the next page the internals for the S&P 500 have been in a collapse now for over ten weeks. The same is the case for the Nasdaq too.

This means that people who are fully invested in the US stock market and simply continue to hold will end up losing a lot of money over the next few years. In 2000 and 2008 bonds began new bull market runs at the same time that the US stock market went through a stage three top. But this time is different for bonds, because they peaked out in the first quarter and fell into a new bear market of their own. So people who think they are doing the right thing by having a lot of money in the US stock market and the rest in bonds as a "safe haven" are going to get hit both ways this time. This bear market is going to end up being a disaster for people due to this fact.

However, there is money to be made going forward by being invested in the few things that will go up. You see as a stage three top plays out in the US stock market there is always some sectors and asset classes that begin new bull markets. They are not always the same ones in each cycle and last week we saw one begin that no one expected or has talked about it. But it is happening.



One of the things you as an investor must do is focus on the start of these new bull markets. My last Power Investor report talks about this area of the commodity market that has now turned up. I still believe that gold and silver will turn up too in the coming weeks, but this one has began to go up now.

Most people fail to adjust to bear markets. They find that their stocks drop and the trading methods that were making them money suddenly stop making money. But instead of taking a break to see what is happening they tend to just double down on their trades or simply go nuts and engage in reckless and truly manic trading activity. They end up making the situation worse.

If they simply accept the fact that there is a bear market and then adapt they can escape this misery and actually profit. This is what you need to do right now.

You need to ask yourself a few simple questions. They are:

1)What changes do you need to make in your portfolio to adjust to a possible bear market?

2)What would you do if the stock market fell 40% and bonds fell in value 40% too?

3)What strategy do you have to invest in other markets that can go up in the coming years?

Most people cannot ask themselves such questions, because they do not want to think about what they are doing or do any work. This is the big mistake that made so many lose money in the last two bear markets.

Instead what they do is rationalize not doing anything, by trying to attack people who warn them, by blanking out such thoughts, or by simply finding reasons to hope that the bull market is not over or that the stock market will go up forever for them. And there are plenty of people on CNBC who will feed them just that. And it is so hard for people to go against what their TV tells them.

In the 2008 bear market people simply could not believe that the banks were broke until the stock market crashed, because the experts told them everything was fine. When I warned them about subprime bloggers said it didn't matter. As the market fell they believed that Ben Bernanke would make it stop dropping.

And now many say that a bear market is not possible, because they think that Janet Yellen would do something if it were to drop.

But Fed action did not work in 2008 or in 2000 to stop the last two bear cycles and with interest rates already at zero and a global bond market top made a few months ago it is hard to see how it would be able to prevent a bear market once it really gets going, and it hasn't even really even gotten going yet.

In the end there are two real underlying reasons that are behind people's investment mistakes that causes them to not make changes during a bear market or not adapt at key market turning points like we are in now. And it isn't simple laziness, but this mistake leads to the laziness too.

The first mistake is to put yourself in a financial position in which you become dependent on the movements of one financial market. The typical investor simply invests in the US stock market and hope it goes up. They become so dependent on it that they cannot get out of it, because they feel they have no other choice to be in it. If they sell and it goes up without them they will feel like they are losing money so they believe they cannot sell. So when it falls they sit their frozen and wipe themselves out.

The professional active trader tends to do the same thing. He or she finds a market or trend that works and makes them money and then goes all-in on it and then begins to ignore all other markets. That causes them to miss out on better investment opportunities when they come elsewhere and then to fail to realize the turning point in the trend in the market that they are so heavily involved in.

By becoming financially dependent on one market and one trend one becomes emotionally dependent upon it and then loses all objectivity. You see this on CNBC every single time you turn it on when you see a fund manager bullish on the market no matter what happens that day or how high it is on a valuation basis.

The solution to escape these mistakes is simple. It is to diversify out of the US stock market and into multiple markets and asset classes and invest in a way so that you do not have such a large position in anything that you become dependent upon it.

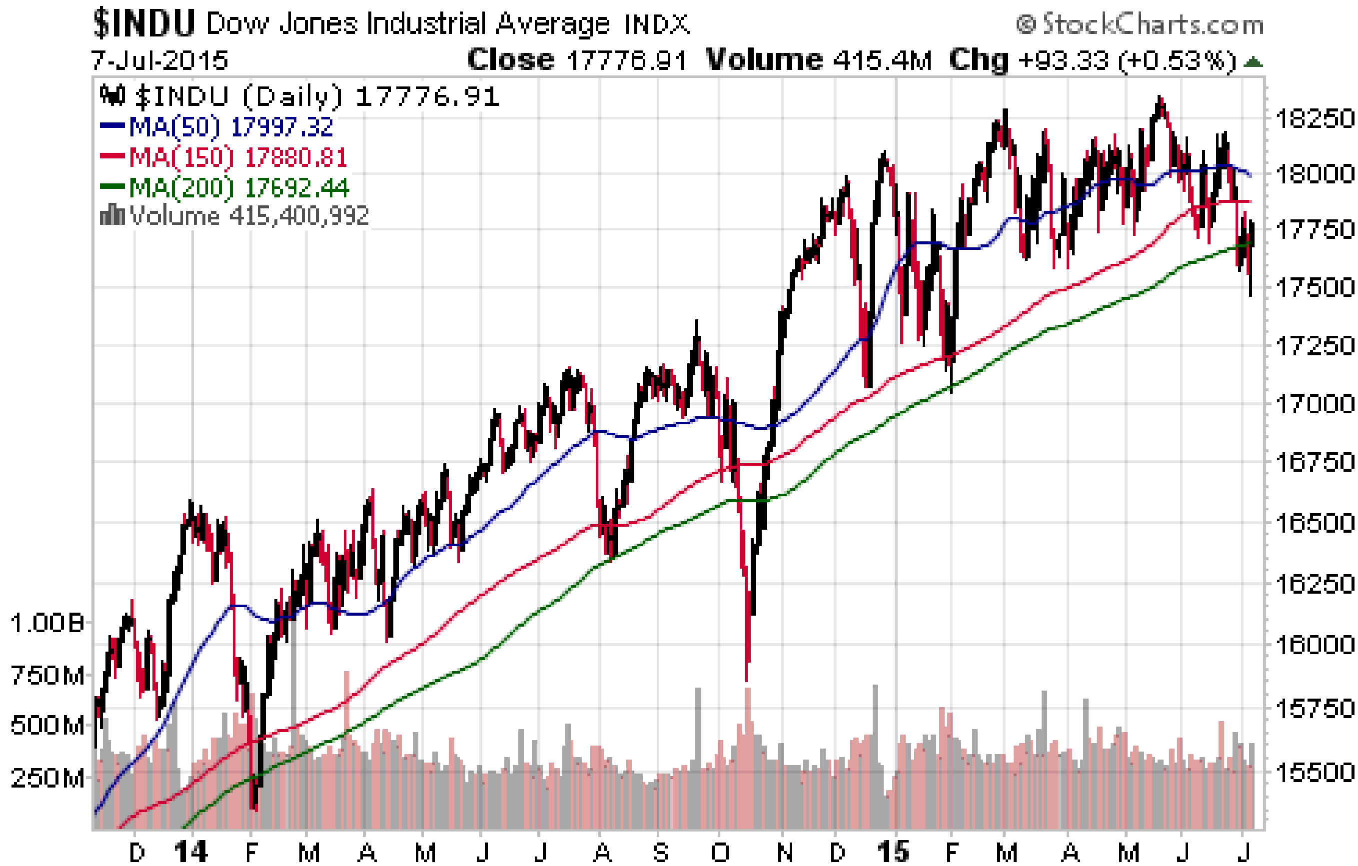
Ironically this type of investing makes it so that you can actually make more money with less risk in the long run.

I made mistakes myself last year by being too invested in gold and mining stocks. I did that because in years past I was able to make a lot of money quickly trading them. I realized my mistake was being too big in them and then realized that this is what everyone does, whether they be regular individual investors or hedge fund managers and I looked for a strategy and way to invest that would work the best going forward in this new market environment.

I talked a lot more about this and how to do it in my January issue of this monthly newsletter. It is well worth your time to read it by going here:

http://wallstreetwindow.com/wswmonthly/wswmonthly01012015.pdf

I spent several months last year studying how I was investing in the markets and what I wanted to do going forward after years of trading big positions in them. This is a moment right now where you must ask yourself what you want to do going forward with your investments. How do you want to manage your money now after the stock market has gone up for six years



and now has all of the appearances of beginning a new bear market? I will do the best I can to find what trades and positions can make us money going forward, but I am not perfect and even if I was you still have to figure out what type of position sizing and time frame works best for you.

It is now more than ever that you need to closely examine what you are doing and how you are positioned, because we are in a time of huge change in the financial markets. Right now it is summer time and everyone is playing and complacent US stock market bulls are too lazy to think about what they are doing. It is time to put in the work when no one else is. This is one of the most important months in the financial markets we will ever see.

Now I know you are not hearing this on TV. I know it may be hard for you to believe, because yesterday the DOW finished up 93 points! It does look like the market can rally a bit here. We have earnings next week and stocks tend to pop a bit during earnings reports, but the big picture is a disaster and the internals are telling us that the dangers are only increasing. But the trend is down so it could just drop more before it has a real bounce. This is why you do not try to play bounces in bear markets.

If you are not sure whether or not we are going into a bear market all you need to do is watch the Tuesday low on the different market averages. If the bulls are right then the market is going to rally and explode up. If my concerns are valid then the market will bounce a bit here and then close down below today’s lows.

If that happens then you will know that the market is in huge trouble. You have basically between now and the end of the month to decide if you want to make changes and how you want to invest and manage your money over the coming years. We should get some sort of bounce this month if not from here, than from a lower level. But a bounce to sell into, but to do that you have to plan to do it. This is why I think this moment is just as critical as the moments we saw from August till October 2007. This is not to suggest that the market averages are going to make one more high so you should try to play that.

Not at all. I cannot predict the daily gyrations of the market. All I can do is look at the big picture and adjust my strategy to that. And the big picture tells me that the risks in the US stock market are growing and no one cares, which only makes it more frightening. The bubble bulls are not going to be denied from making their final gamble, and they base that bet on one reality - which is that no one knows for sure what is going to happen in the short-term.

However, the picture is clear. This is a stage three top. Therefore I am now focusing my efforts on buying into ETF’s, sectors, and asset classes that are in a position to breakaway from the coming bear trend of the US stock market and go up on their own no matter what the DOW does.

It also means that I have ZERO interest in trying to daytrade some silly tech stocks, buy Jim Cramer “Fast Money” style picks, or use trading momentum strategies that no longer work.

It also means that I am looking to short rallies, because that IS THE WAY TO MAKE MONEY in bear trends. Again please read my January monthly issue on money management, diversification, and real investing:

http://wallstreetwindow.com/wswmonthly/wswmonthly01012015.pdf