



## Stock Market Barometer



### Align Investment Positions With Stock Market Cycles –Mike Swanson (08/04/13)

We are in a secular bull market cycle for gold. I know gold has dropped since 2011, but I'm talking about a long-term ten year plus cycle, which has important ramifications for what gold stocks are likely to do over the next few years. Secular cycles are long-term trends that last over ten years, and usually longer than that. Inside these long-term cycles are shorter-term bear and bull markets that typically last from 2-5 years in duration. Gold has just gone through a short-term bear market within a long-term secular bull market. The S&P 500 is four years into a cyclical bull market while European markets started a new one a year ago so have a lot more upside to them going forward in the next few years. To make the most money investing you need to understand where you are in these cycles.

#### Quote of the month:

“In any investment you expect to have fun and make money” - Michael Jordan

If the two words "secular cycle" sounds like some fancy term or are words that kinda give you a headache there is a simple way to think about them to help you understand them. The word secular derives from the latin word *saecularis* meaning of a generation, belonging to an age, or belonging to an era. I like the last word era myself to understand this.

So in our lifetimes in the 1970's we saw an era of inflation that brought a wild bull market in gold stocks. The 1970's were the time of Jimmy Carter, high oil prices, and stagflation and horrible returns for people investing in the US stock market. The next two decades were the time of Reagan optimism and American triumphalism as the Cold War came to an end that ended with a climatic financial mania in Internet stocks and unbelievable stock valuations in 1999. So in the 1980's and 1990's we saw an era of high economic growth and great rallies in the US stock market

# STRATEGIC STOCK TRADING

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97.34	97.34	97.34	97.34	97.34	97.34
54.63	54.64	54.34	54.03	54.03	54.64
31.88	33.48	38.85	31.35	34.64	35.34
785.32	96.54	54.64	31.35	95.48	96.34
34.36	03.02	95.48	785.32	96.54	05.02
63.32	13.95	96.34	34.36	82.84	13.95
84.54	136.10	63.32	63.32	75.15	136.10
95.65	131.87	84.54	84.54	36.34	131.87
28.82	28.82	28.82	28.82	28.82	28.82

## MICHAEL SWANSON

that led to the Internet bubble. We had a final new year's celebration on New Year's 2000 to end the era as people thought they were in a "new economy" of limitless stock market gains.

Now since then we have lived in an era of up and down financial volatility in the financial markets that has brought the stock market crash of 2008, overall meager returns for investors, failed leadership at the federal reserve, fear based leadership from politicians, endless winless wars, bloated government fiscal deficits, economic misery for the masses, and the stripping of individual civil liberties. In short a nightmare hell for Americans. But it won't last forever.



We are used to speaking of secular cycles in terms of the financial markets. In that case a secular bear market is typified by a market that tops out at a point of extremely high valuation and then ends at a point of low valuation to begin a new secular bull market that ends years later in a mania of high valuations. The best long-term investments are made in markets that are at the end of a secular bear market that have reached extremely low valuations by historic standards and are in a position to begin a new secular bull market that will last for over a decade.

Since World War I the United States went through three secular bull markets, which resulted in a high annualized return for investors.

SECULAR BULL MARKETS FOR DOW	DURATION IN YEARS	AVG ANNUAL RETURN
1922-1929	7	17.2%
1950-1965	15	10.6%
1983-1999	17	15.3%

Big returns come when you invest in secular bull markets, especially if you do so when they start or at the end of a cyclical bear market which provides for an incredible investment entry point.



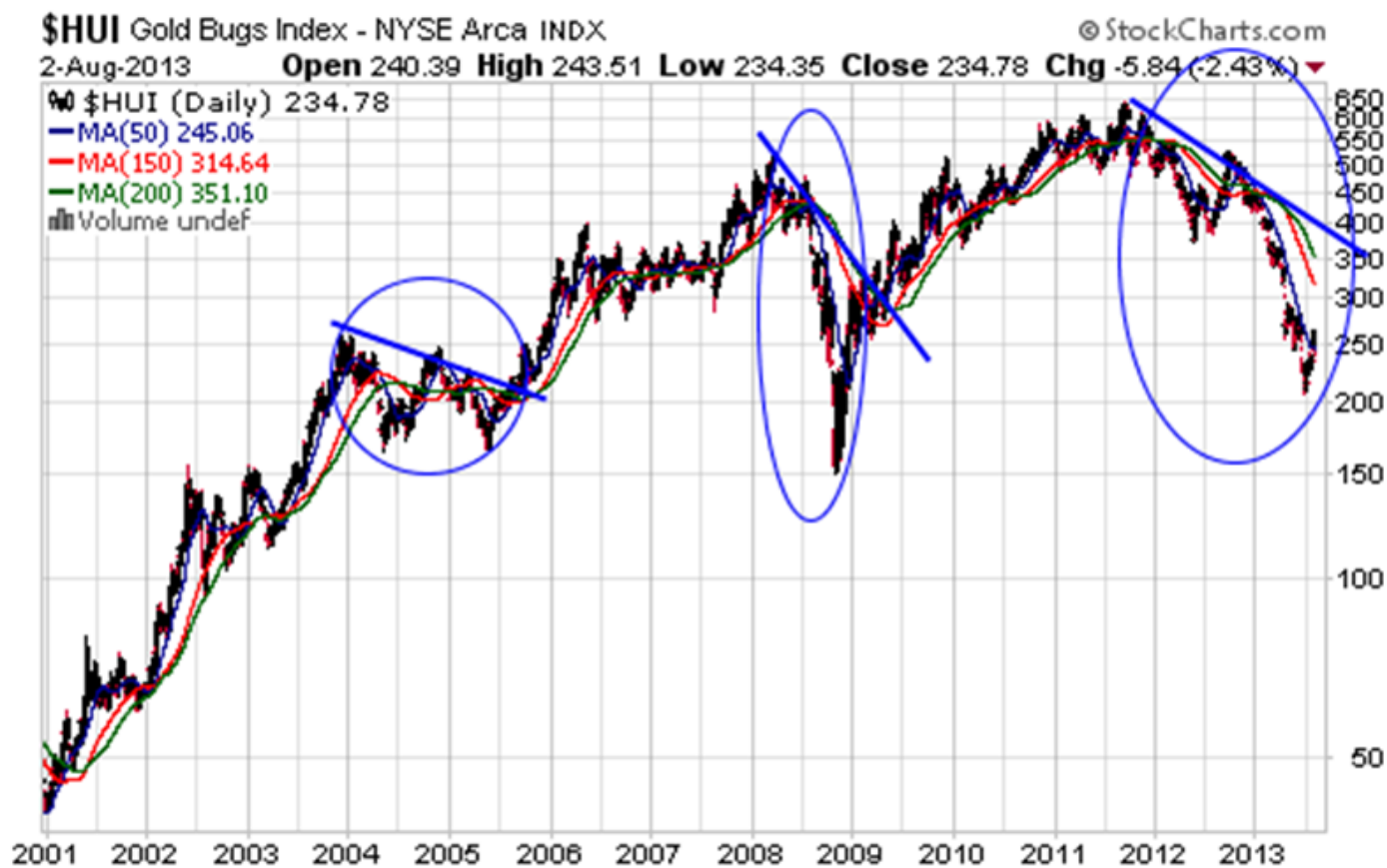
The chart above is the cyclically adjusted P/E ratio, which takes the 10 year average price to earnings ratio adjusted for inflation, of the S&P 500. You can see how it ended secular bull markets by reaching a high valuation and then ended secular bear markets once it made a low trough in valuation. Times of low valuations made for wonderful times to invest.

The DOW has gone through three major secular bear markets, each of which lasted from 16 to 21 years. It is currently going through a fourth one that started in 2000 when the cyclically adjusted P/E reached a record level. During the last three secular bear markets the DOW's average annual return was less than 2% and during some of the years of these bear

markets there were huge crashes and wipeouts. People who invested during these secular bear markets took enormous risks to make very little in way of returns. Right now the bond market is near the peak of a secular bull market and is trading at valuations levels that make no sense. It makes no sense to buy a CD that pays you almost nothing. But people are doing it. People are taking huge risks in the bond market to make nothing.

I believe what this means for the US stock market now is that it is still in a secular bear market that started in 2000 even though it has gone up since 2009. It probably has one cyclical bear market to go before this current secular cycle comes to an end. We have had three secular bear markets in the last century. They lasted from 16 to 21 years. That would mean that the current one is likely to come to an end sometime after 2016 and before 2021. Now the market is still in a cyclical bull market and I do not see a sign that it is over yet, but at some point in a year or two it will end and a new cyclical bear market will take its place.

No cyclical bull market has ever lasted forever. And neither has a cyclical bear market.



Ok, now for metals and mining stocks. Gold and gold stocks started a new secular bull market in 2001. Since then the HUI has gone through several cyclical bull and bear markets. I have circled the three cyclical bear markets it has gone through in the above chart. It is still in a

secular bull market even though it has declined from 2011 to this past June.

What I want you to think about though is that secular bull markets end with a big cyclical bull market that takes valuations up to a stupid level. I believe the next cyclical bull market for gold stocks will lead to just such a blow off top. I saw it with Internet stocks in 1999, it is happening with bonds now, and I believe we will see something similar happen with mining stocks in a few years. The gains from here should be huge, because many mining stocks are now at very low valuations, with PEG ratios less than 0.50 and nice dividend payouts.

So I am very excited about the investment potential in mining stocks now. I also believe European markets are in a position to do incredible over the next few years, because they just started cyclical bull markets last year. During most cyclical bull markets you get a big rally for a few months, that can lead to 30%, 50%, and even 100% returns for the market, and then a period of 6-12 months of consolidation. We saw the S&P 500 do this in the first few years of this current bull market. It went up huge in the first nine months of this bull market and then spent almost a year going sideways before it had another big leg up that started in August of 2010. Since the S&P 500 has gone up so much this year it is likely to stall out sometime this Fall and enter a long period of sideways movement too.

But the European markets have been going sideways all year after having their big run in the last few months of 2012. They are in a position now to breakout and begin another big leg up for their bull markets just like the S&P 500 did in 2010. Markets such as Ireland have already broken out in the past few weeks, while Belgium and Spain are now inches from breaking out.

If I put this all together what I see in August is a nice breakout in European markets that will lead to big gains there for the rest of this year. I also think metals and mining stocks are in the process of basing off of their June bear market bottoms. That basing phase should end this month or next and lead to a breakout and start of a new bull market there. That breakout likely will come after European markets begin their next big move up.

I'm about 75% invested in my account now and am looking to add a little bit more money to it. I plan on doing more buying in these markets this year. By understanding how these big cyclical trends work we know exactly how to position ourselves to try to make the most amount of money with the least amount of risk. It's all about knowing these cycles and knowing how to buy where valuations are truly cheap. They both go together.

CHARTS OF IRELAND AND SPAIN—IRELAND HAS ALDREADY BROKEN OUT AND ARE BEGINNING A BIG RUN. SPAIN LOOKS LIKE IT WILL OLOW. OTHER EUROPEAN MARKETS TOO.

### \$IEDOW Dow Jones Ireland Stock Index INDX

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2-Aug-2013

Op 275.50 Hi 278.62 Lo 275.50 Cl 277.96 Chg +2.43 (+0.88%) ▲

Ⓢ \$IEDOW (Daily) 277.96  
— MA(50) 264.06  
— MA(150) 253.72  
— MA(200) 244.24  
▒ Volume undef

**IRELAND STOCK MARKET  
BREAKS OUT BEGINNING  
NEXT BIG LEG MOVE UP**



### EWP Spain iShares NYSE

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2-Aug-2013

Op 31.57 Hi 31.92 Lo 31.52 Cl 31.90 Vol 257.7K Chg +0.23 (+0.73%) ▲

Ⓢ EWP (Daily) 31.90  
— MA(50) 29.38  
— MA(150) 29.75  
— MA(200) 29.19  
▒ Volume 257,744

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