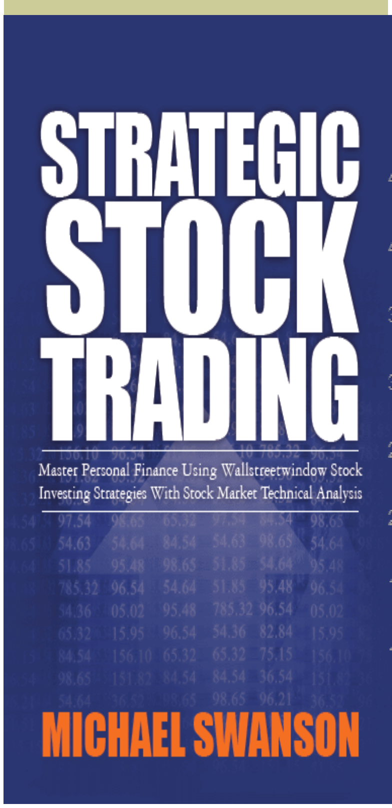
WallStreetWindow Monthly

Stock Market Barometer

The Most Influential Financial Newsletter Read By Over 500 Hedge Fund Managers and Thousands of Elite Investors ~ October 5 ,2014

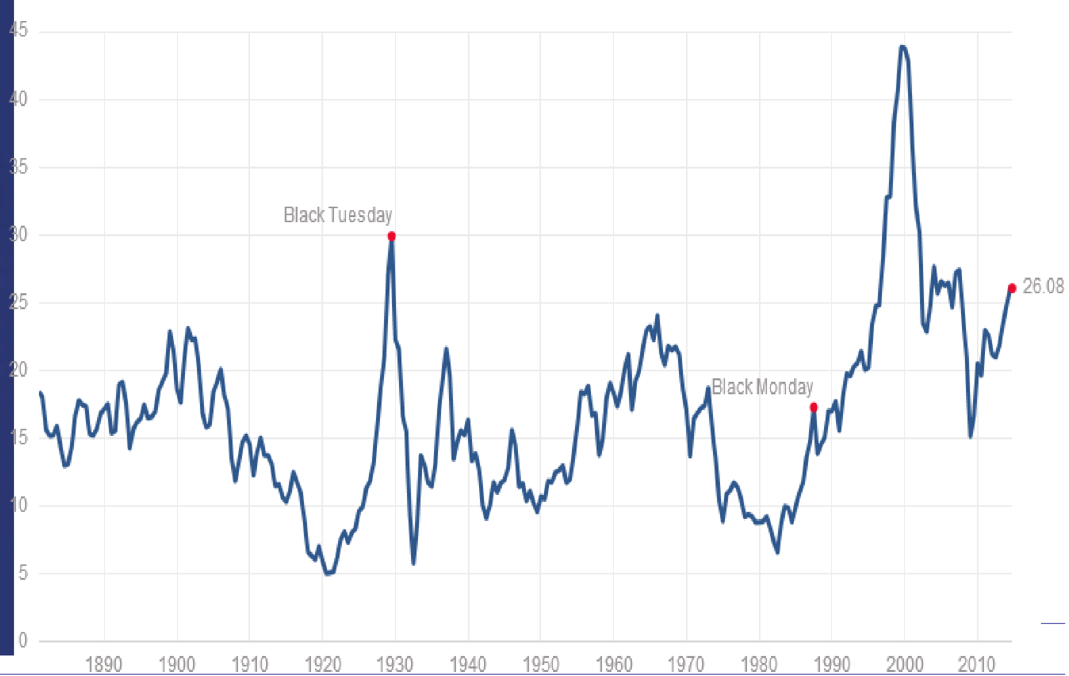
TREND ALERT — September top in, US stock market poised for October collapse.



The Bull Market Is Over—Mike Swanson (10/05/2014)

I thought next year I would be writing a monthly newsletter with the title The Bull Market Is Over, but with what has taken place in financial markets in September I am being forced to write this right now.

Frankly I'm surprised. Now all year I have been saying that the stock market made zero sense from an investment standpoint, because of the crazy valuations level it has reached. I've written about this in the past over and over again. But for one thing the cyclically adjusted P/E for the S&P 500 is over 26, which makes the US stock market way overvalued from a historical standpoint.



Now people say that doesn’t matter. And some think that the market is going to go up in a giant bubble blow-off that will take it to the valuations levels of 1999.

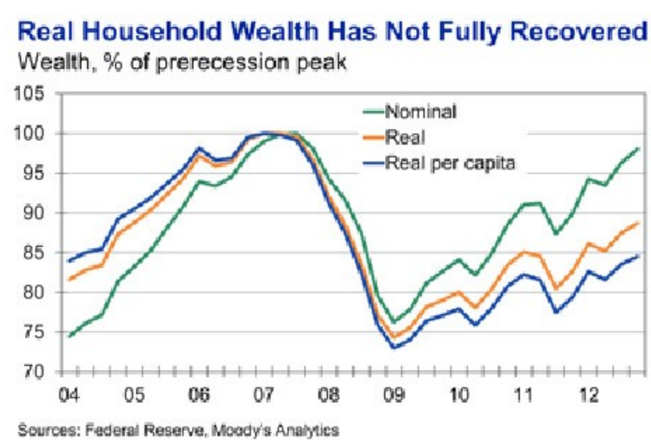
Some try to explain away the CAPE ratio, by claiming that we are in some new economy with oil fracking or claim that the CAPE doesn’t work. But other valuations metrics say the same story. The average PEG ratio of the DOW 30 is over 2 and one is considered a fair value.

But high valuations in themselves do not mean that a market is going to fall. Highly valued stocks and markets can simply reach higher lofty levels. But what they have meant all year is that for someone who wants to buy and hold for a year or more the US stock market simply makes zero sense. And to do it you cannot use valuation metrics, but just come up with dream fantasies to justify the market going up forever.

And that is exactly what people have done all year. Now there are two other things that are necessary to bring about a new bear market. The second one is crazy investor sentiment. And we have seen that appear this year. Early this year the investors intelligence survey showed the number of bulls reaching levels seen only twice before. And those times were right at the October 2007 top and right before the 1987 stock market crash.

On TV everyone is bullish and those who are in the stock market now are more fanatical than I have ever seen before in my life. Some of the emails I get from people are absolutely insane. And the new bull market prophets are even more weird than the ones that appeared at the top of the previous bull markets. Jim Cramer has been recommending crazy bubble stocks to people just like he did in 1999, but people like Jeff Macke are more bizarre than past bull prophets. On CNBC we went from Maria Bartiromo to the mindless bubble girl. It is a sign to me of the unreality of the stock market now and the disconnect bulls have with the real economy.

What kind of person actually believes that the US economy is in a boom right now? Over the past seven years the average American has lost about 20% of their net wealth. The 2007-2008 collapse brought with it a sharp drop in most people’s living standards. Many people got out of the stock market after the 2008 crash and will never get back in it again, because they simply need the money for retirement or to pay their bills.



They are not going to get back into the stock market ever again. They can not and should not take that risk.

Back in June I went to the Las Vegas Money Show. There were close to a thousand people there. I walked around and talked with some of them. Every single one of them was bullish on the stock market. One of the speakers said that the bull market was only half-way through and got a standing ovation. These people were very hungry for new investment ideas and ready to gamble it up.

All of them were also older than me too. Most were in their late 60's or 70's. Those I talked with never sold out in 2008 and 2009 and rode out the bear market. They seemed like they had a lot of money. These are the type of people in the stock market now.

What happened is that these people did not sell as a result of the last bear market and feel like they have been rewarded for their loyalty to the market. They are now convinced that those that sold made a mistake and that the stock market will go up forever. They think they did the right thing by not selling in the last bear market and will therefore not sell in this next one either.

This is why the people that are in this stock market are more fanatical than I have ever seen before. Many of them truly believe the stock market will go up forever. It is almost like a religious belief for them and if you doubt the market they go crazy. Even in 2000 and 2007 when I got bearish on the market I did not get reactions like I do now.

The thing is I believe when the next bear market ends that it will likely result in a long drawn out stage one basing phase like has been occurring with gold stocks. That will bring these people misery and if the bear market say takes two years to play out and then you get a one year basing phase after that you are talking years before they will make their money back. Since many of these people are older in age they simply won't live long enough to go through two more market cycles. But they don't care right now, because they actually believe that market cycles do not exist and that they exist beyond history.

They believe that valuations do not matter. They believe that the Federal Reserve will print money and make it go up for them if the market falters. They believe in their leaders. They believe what their TV's tell them to believe so they crave the safety that NSA spy programs are said to bring them even if it means jettisoning the Bill of Rights and the freedoms and liberties that their parents fought for in World War II. All they care about is believing that the stock market will go up forever for them and that is why they trust in their TV leaders so much. They love big brother and this is why they have formed themselves into such a dangerous herd. Once the market falls they will demand another Fed money printing operation even if it causes such an inflation explosion that it wrecks the economy. They will panic then, but love the market now. Gold is a hedge against their madness.

This is why after I went to that Las Vegas Money Show I titled the June issue of the monthly newsletter Is This The Last Hurrah of a Generation?

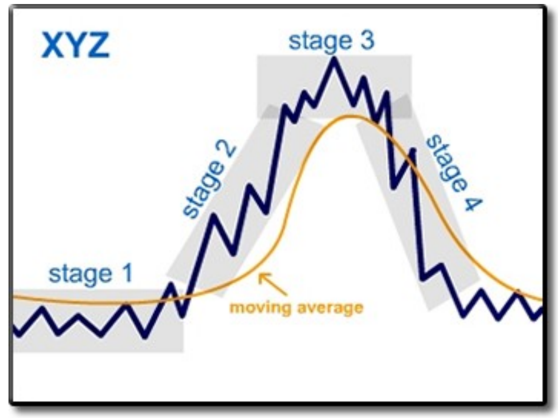
I was referring to the big rally that began in December 2012 and took the market up at a 45 degree angle for twenty-two months without a single real correction. For those in it the rally felt like a stairway to heaven, but once it ends they will fall into a bear pit of hell. But I did not think the rally was ending when I went to the Money Show, but I knew no matter what people think that all bull markets and rallies eventually come to an end.

Personally I want to help people invest in the market by finding things that they can buy and hold for several years. Now you could have made money by trading this market and jumping in and out if you could have devised a system to beat the Wall Street trading robots. But I knew that those who to try to buy and hold the US stock market would end up crushed when the bear came out of the box.

That is why all year I have said the US stock market was no good from an investment stand point. It is also why I have recommended and personally invested in precious metals and mining stocks. I thought they were going to breakout in a new bull market this summer, but that did not happen. Instead they have been falling hard. But unlike the US stock market they do have real investment potential for the next few years.

Now despite telling people that I didn’t like the US stock market as a place to put investment money into this year I have never told people to sell out of it. I have never said we are in a bear market. You see the worst thing someone in my business can do is tell people to get out of the stock market and then have it go up without them.

People don’t really care about losing money in the markets. What they cannot stand is to feel like they are missing out when others make money. This is why almost all investment advisors are simply bullish on the market all of the time. If they get people out of the market and it goes up they will lose their customers. If they keep their money in and



it falls then their customers may get nervous, but they won't go to another adviser, because all of the others are being bullish all of the time too and losing in bear markets also. The problem is the investment advisors and Wall Street money managers have zero incentive to try to do anything about bear markets. So they end being bulls who deliver people slogans.

So I have made many angry by simply doubting the market, but if I had told people to actually sell this year I not only would have made people angry, but totally furious at me.

But now I do not care anymore, because I now believe the stock market is about to drop in what will probably turn out to be a very violent topping pattern. What has taken place in the past few weeks has taken me by surprise, and cannot be ignored. You must know what is happening.

Bull markets end with a stage three topping phase. I have been through two of them. As part of that phase you do get the high valuations and wacky bullish sentiment, which I have talked about this year multiple times. But you also get a third thing.

And that is a narrowing in market leadership. As a bull market comes to an end fewer and fewer stocks go up and most sectors actually go into bear markets of their own. The market averages though keep going up and look good, because a few stocks help them keep going up. But inside the market is a mess.

In the last two bull markets that process took months to play out. In 2007 it basically went on from February to October. In 2000 most sectors actually traded weaker than the Nasdaq and tech stocks for well over a year before the market top that Spring. If you remember there was talk of "old economy" and "new economy" stocks back then. In 2007 shares of mortgage companies and construction stocks had been in a big bear market that had been going on for over a year before the October 2007 top.

We started to see some weakness in the stock market at the start of this year. In March there was a quick and fast drop in a lot of the high-flyer technology fad stocks. But the market recovered after that and everything seemed fine. There was no big internal weakness going on and it usually takes months of internal weakness to spell a top.

In August we saw a quick drop in the market and then a rally back up in September. The market was overbought going into September and gold and commodities were pulling back in August.

I thought gold would just pull back and bottom in September and the US stock market would probably peak out in September and have another quick correction like the several we have seen since December 2012. I thought we'd then get a rally into the end of the year, and if that rally spelled internal weakness we'd see a bear market ahead of us and I'd warn you about what was happening.

Sine December 2012 there has not been a ten percent correction in the US stock market. The 200-day moving average has acted as solid support and the market has been rising at a fantastic 45 degree angle. Once the market averages close below their 200-day moving averages there will be pure panic in the market, because the magic rally will be broken and peo-ple will be forced to wonder how far will the market drop?

The trading robots and algorithms will go into a selling panic as a result of the technical market breakdown. They did in 2010 during the flash crash and will do it again.

What is happening is that there has been a sudden internal breakdown in the market sectors and stocks like I have never seen before. It all happened in just the past six weeks. I believe what it represents is a simple stage three topping process. It is a transition into a new bear market cycle that is playing out differently than the past two transitions

I experienced, because it is happening so fast that it is almost unbelievable.

I use TC2000 to track the sectors of the market. It breaks the stock market up into 238 sectors. On August 24 about 18% of them were below their 200-day moving averages. Today 47% of them are. And that's despite the fact that the US stock market averages just made a new 52-week high three weeks ago. Ten of the thirty DOW components are below their 200-day moving averages and so is 39% of the S&P 500. Sixty-five percent of the stocks on the Nasdaq are below these moving averages too and so are 473 of the 1,000 stocks that make up the Russell 2000.

What happened is that when the market rallied off of its August lows few stocks participated in that rally. Then once the month of September began many stocks and sectors simply dropped all month long. The result is a rapid disintegration of the internals in the stock market.

You can see this for yourself on the three charts on this page, which show you the number of stocks above their 200-day moving averages for the NYSE, S&P 500, and Nasdaq. You can see how the internal breakdown in the market has taken place.

I have never seen anything like this before. During this bull market there have been quick and temporary drops in the number of stocks above their 200-day moving averages. But all of these drops in the internals happened during corrections in the US stock market. This time they happened before the US stock market dropped at all - and even while it was actually going up!

And the previous bull market tops were different too. The internal deterioration started after a market correction and then became more evident during the final market rally with continued weakness.

It is when the number of sectors and stocks below their 200-day moving averages is around 50% or higher and stays that way despite market rallies that you get at the end of stage three tops and into a bear market.

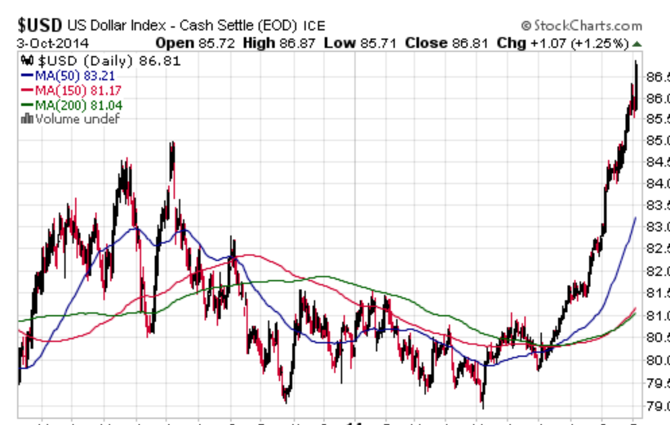
This is the third ingredient beyond crazy valuations and silly sentiment that bring a new bear market and it is happening right in front of our face. Stage three tops usually take months to play out, but this one looks like it is happening right now over a few weeks.

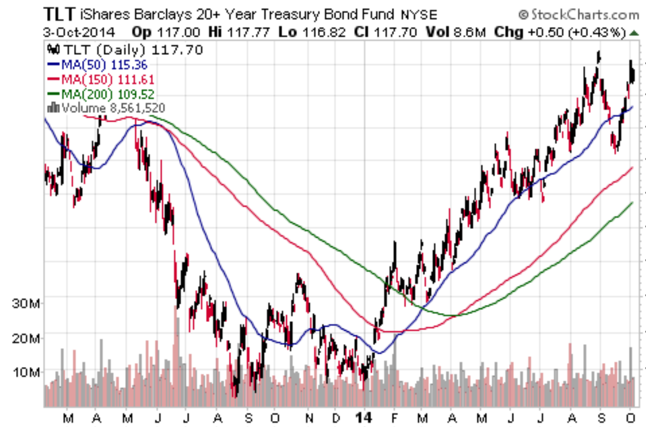
I think the reason why this is happening now so quickly is because of the way the market has traded since December of 2012. When markets go up for a long-time or go parabolic they end up having climatic tops that lead to big drops. Silver did that in 2011 for example.

What has happened is very simple. The US stock market rally that began in 2012 simply exhausted itself in September. It's over and now bulls are about to pay the price for that rally without a correction. It's a rally that generated wild levels of margin debt and will lead to pure panic when the market averages close below their 200-day moving averages.

I believe it will mark the start of a new bear market too. Now there is something else going on too in the financial markets that is very significant. You know that gold and mining stocks have been falling sharply for the past several weeks. So have commodities in general.

At the same time the US dollar has been rallying. You can see the big surge in the US dollar index on the right. Now there are a lot of people who believe that this move is the start of a new giant bull market in the dollar and that is why gold is falling. Their argument is that the dollar is going up, because the US economy is strong. They believe that the Federal Reserve is going to raise interest rates next year and the dollar is rallying into tighter Fed policy and an even better economy to come. They are hearing this from CNBC economists like Steve LIESman too, so it makes sense.





The problem with this idea though is that if the Fed is about to go into a big tightening cycle you would think that the bond market would be falling and interest rates would be rising in bonds. But instead the opposite is happening. The TLT ETF for example has been going up and not down too! In fact it has gone up sharply since mid-September which is exactly when the dollar rally accelerated, gold started to fall hard, and the deterioration in the internals of the stock market really picked up too.

I think something else is causing the big rally in the US dollar. If you can remember the time before the time of the start of this stock market rally in 2012 way back in December of that year there were several violent corrections in the stock market that occurred. There was a big one in 2010 called the "flash crash" and another in 2011. There was another dip in the summer of 2012 too.

During these drops people on CNBC talked of a "risk-off" situation. What happened was that during these corrections just about everything sold off hard while the dollar and bonds had temporary rallies. When the correction ended they came right back down. So if you look at the US dollar index for the past seven years you can see these big spikes in the dollar index beginning before corrections began and then tops as they came to an end.

You can see this in the chart on the right. The easiest example is to see this pattern on the chart is 2008. The US dollar index rallied into the October crash. It did the same thing in the 2010 and 2011 corrections. Look how the dollar index rallied and spike out. It is probably going to do the same thing again.

In fact if you think about gold and commodities in August of 2008 they began big drops that resulted in meltdowns in September. The stock market was falling too, but not like commodities and gold were that month. Then when October 2008 came the stock market crashed. Gold and gold stocks fell a little bit with the market at first then became disconnected from

the action in the stock market and began their last bull market in November of that year while the stock market continued lower and bottomed in March of 2009.

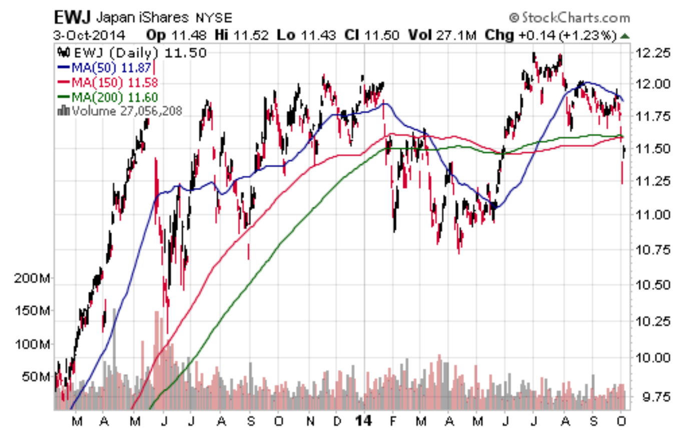
The drop in gold and mining stocks in September has certainly taken me by surprise. But I do not think the gold bears understand what it means. It IS NOT a reason to get even more bullish on the stock market as some are suggesting. It is a big danger sign in my opinion for stock market bulls.

It is interesting how gold and commodities fell hard last month as the internals in the stock market disintegrated and a flight to safety has appeared to take place in bonds and the US dollar. I'm not saying the stock market is going to crash to the extent it did in the Fall of 2008, but there are some similarities that suggest a violent drop is coming. Gold and the mining stocks have simply dropped ahead of that. And I expect them to bottom ahead of the broad market and take off too like they did in 2008.

Now what is more world markets as a whole are falling bad. Most stock markets are already in bear markets. Look at the GWL ETF of the top market cap stocks outside the US and then the other ETF's on this page. These world markets have already fallen below their 200-day moving aver-

ages and barely went up on Friday when the DOW went up 200 points and some on CNBC called a bottom. They look terrible.

Let me summarize the situation for you. Almost every stock market in the world now is in a bear market. They have fallen below their 200-day moving averages and are in stage four bear markets.



Gold and commodities have fallen sharply down to the support levels of their past twelve months and some have gone through them.

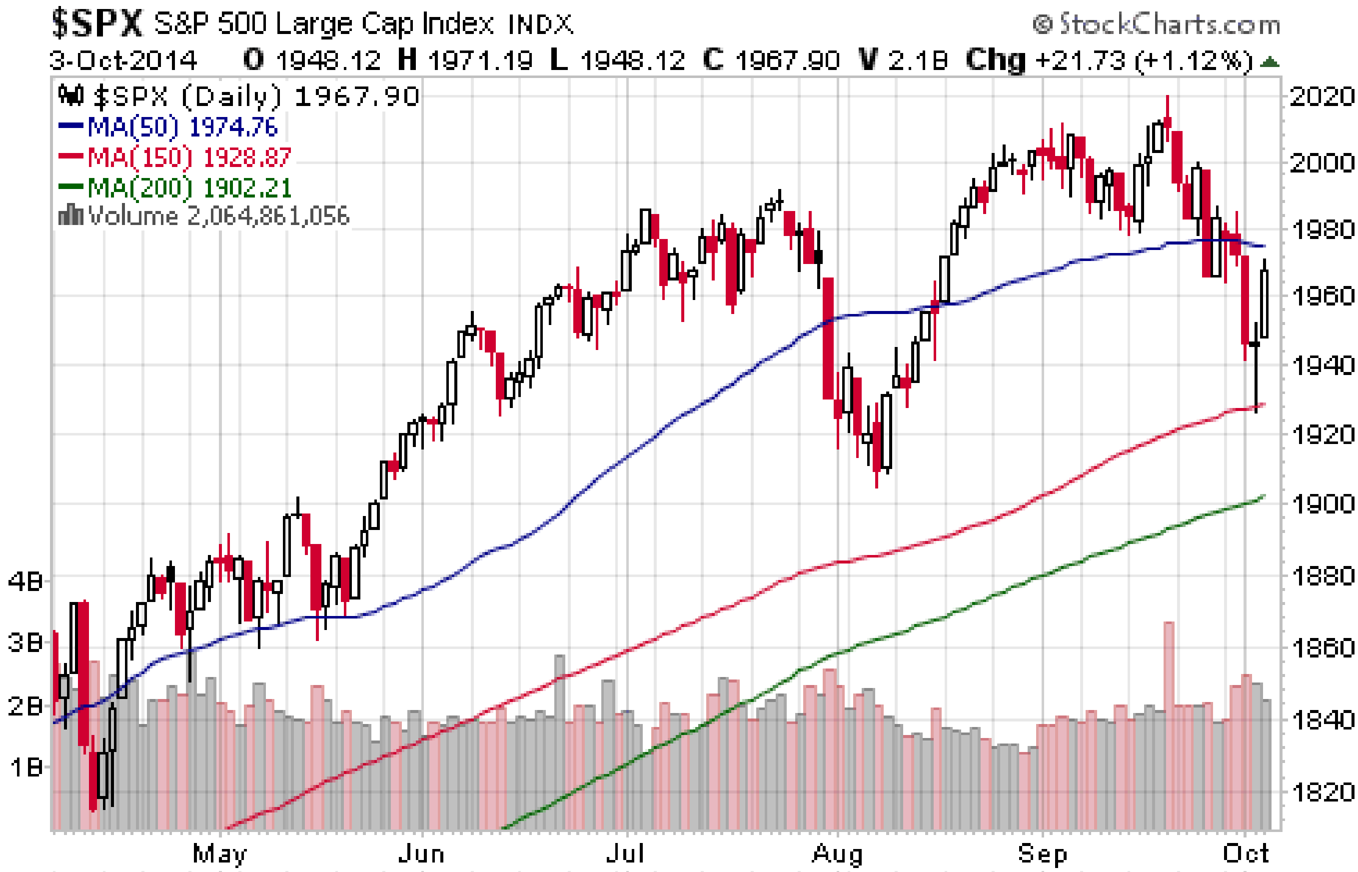
Most stocks trading on the US stock exchanges have fallen sharply too. Less than half of the stocks trading on the NYSE are above their 200-day moving averages and 47% of the 238 sectors that make up the stock market are below these moving averages.

In the past month the internals in the US stock market have suddenly collapsed.

The only thing strong is the US dollar and the bond market. This is the same situation that preceded the market crash of 2008.

Now the DOW, Nasdaq, and S&P 500 are only a few percentage points off of their last high which came a few weeks ago in September. They fell sharply off of those highs and quickly towards their 150-day moving averages.

On Thursday they bounced off of them and on Friday the DOW rallied 200 points. No one is really worried about the market and few know about the situation in the world markets as a whole. All most people know about are what the DOW and S&P 500 are doing, because that is all they see when



they turn on the TV or look in the newspaper and it's all anyone talks about.

When you go beyond looking at just the market indices and see what is happening inside the US stock market and what has already been happening to markets all over the world then you must be concerned. I think it is only prudent to expect the US market averages to follow the internal action in the stock market and fall sharply too.

What is funny is few are worried. They just think this is a correction that will be fast and short like the many we have seen since December 2012. Some even think the market already corrected and is now going to go straight up.

Once the market averages fall below their August lows and the 200-day moving averages though then even these final fanatical true believers will worry. And some of them that are on margin will panic and sell because they will have to. And others who decide they want no more of this stock market will get out too. Almost everyone who bought stocks this year will lose money.

I don't know what the panic will look like if the market averages go below their 200-day moving averages. Such moves brought the flash crash of 2010 and the 1987 stock market crash. In 2000 and 2007 they were part of the transition into a bear market and were like mini-flash crashes.

I am not sure how the market is going to drop from here or how things will play out. What I believe though is that this market correction is not over and will lead to pure panic before it ends. After that panic is over we'll see the US dollar rally end and the US dollar go straight back down. There will be talk of the Fed not raising rates next year and rumors will spread that it will print more money if the markets fall again.

After the drop is over gold will rally straight back up to its recent highs and if it goes through them will begin a full blown bull market. This is actually what happened in the Fall of 2008. As the market went into crash mode gold and gold stocks began to hold up after collapsing into the crash and then began their last bull market in November of 2008.

And after the stock market meltdown is over the market will rally again. That rally will give people who want to time to think about things and time to get out for good if they decide that is the right thing to do. If that rally comes with more weak internal action you'll know for certain that we are heading for a total bear market disaster. It will be a bear market that will lead to low valuations and will be the last one of the secular bear market that began in 2000. But it will wipe out the true bull believers who think they can hold on again like they did in 2008.

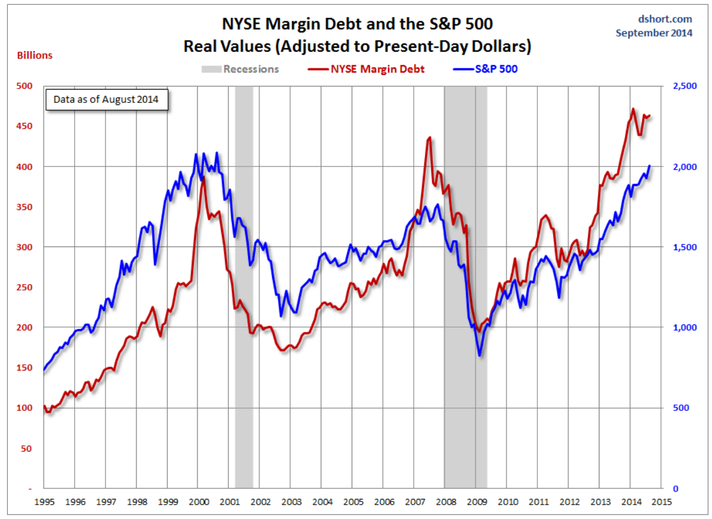
There are times in the markets where everything changes and new trends emerge that will dominate the markets for the next few years. In 2009 we saw the US stock market go from being in a bear market to being in a bull market trend that has continued to this day.

In 2007 we saw the internals collapse and the market make a transition into a new bear market. Those that ignored what was happening suffered in the crash.

In 2000 the stock market bubble popped and in 2003 the market bust that came as a result came to an end.

The point is there are turning points that happen in the markets that lead to new trends that last for years. People who understand those trends are able to make money from them and those that refuse to admit reality lose money.

The times of transition though are very volatile and wild times. They bring with them some wild swings in the financial markets. You do not have to do anything, but sit and watch. If you have cash be happy to just watch the circus. I'm going to make some adjustments now and put together a new game and will talk about that in a follow up Power Investor report.



You may want to look over your own portfolio and investments. I would not want to have money in the stock market now that I felt like I needed to live on and could not afford to lose.

You may think this newsletter is overly alarmist or simply do not want to believe what I'm saying in it. That's fine. Just watch the market and see what happens. If what I'm saying is correct then the stock market is going to drop sharply over the course of the next few weeks. If you see that happen you'll know that you need to examine what is happening very closely and look at things for yourself.

You'll need to ask tough questions to your brokers and investment advisors if you have any. You'll have to decide what you want to do. But after a sharp market drop meltdown there will be some sort of rally you'll be able to get out on so you can watch and wait for now.

When it comes to the short-term action we saw the DOW bounce on Friday. My guess is that bounce will soon fizzle out and we'll see the market averages go straight back down and through their 200-day moving averages to snowball into pure panic when it does.

Some bull markets die out on a whimper and some like I saw in 2000 do it with a sharp and scary drop to the tune of 15-20%. This is the last hurrah of a generation and this is how they are going out. They learned absolutely nothing from the bear markets of 2008 and 2000. They have wracked up a record level of margin debt and now we have to sit and wonder how badly are they going to sell when things go down?

Nothing lasts forever. No bear market goes on forever and no bull market ever has done that either. If you believe the market is going up for more years to come you are essentially betting that a repeat of the once in a lifetime mania of 1999 is going to happen again. If you want to keep betting on that go for it! This is going to be a wild month!

Disclaimer

WallStreetWindow.com is owned by Timingwallstreet, Inc of which Michael Swanson is President and sole shareholder. Both Swanson and employees and associates of Timingwallstreet, Inc. may have a stock trading position in securities which are mentioned on any of the websites or commentaries published by TimingWallStreet or any of its services and may sell or close such positions at any moment and without warning. Under no circumstances should the information received from TimingWallStreet represent a recommendation to buy, sell, or hold any security. TimingWallStreet contains the opinions of Swanson and and other financial writers and commentators. Neither Swanson, nor TimingWallstreet, Inc. provide individual investment advice and will not advise you personally concerning the nature, potential, value, or of any particular stock or investment strategy. To the extent that any of the information contained on any TimingWallStreet publications may be deemed investment advice, such information is impersonal and not tailored to the investment and stock trading needs of any specific person. Past results of TimingWallStreet, Michael Swanson or other financial authors are not necessarily indicative of future performance.

TimingWallStreet does not represent the accuracy nor does it warranty the accuracy, completeness or timeliness of the statements published on its web sites, its email alerts, podcats, or other media. The information provided should therefore be used as a basis for continued, independent research into a security referenced on TimingWallStreet so that the reader forms his or her own opinion regarding any investment in a security published on any TimingWallStreet of media outlets or services. The reader therefore agrees that he or she alone bears complete responsibility for their own stock trading, investment research and decisions. We are not and do not represent ourselves to be a registered investment adviser or advisory firm or company. You should consult a qualified financial advisor or stock broker before making any investment decision and to help you evaluate any information you may receive from TimingWallstreet.

Consequently, the reader understands and agrees that by using any of TimingWallStreet services, either directly or indirectly, TimingWallStreet, Inc. shall not be liable to anyone for any loss, injury or damage resulting from the use of or information attained from TimingWallStreet.