



Stock Market Barometer



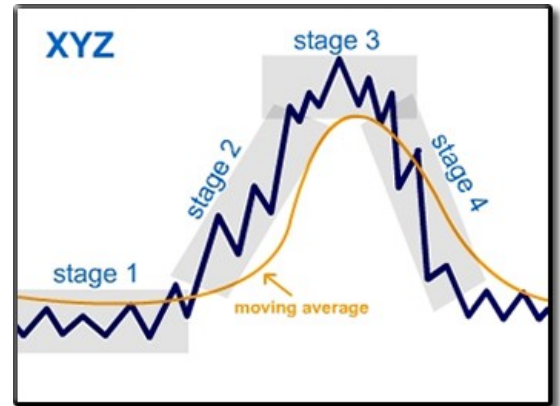
Quote of the month:

“Man is a political animal,” - Aristotle, circa 350 B.C.

The Most Influential Financial Newsletter Read By Over 500 Hedge Fund Managers and Thousands of Elite Investors ~ November 1, 2012

The Quest for Certainty—Mike Swanson (11/01/12)

Next Tuesday is the Presidential election. After the results come out for the election about 1/3 of the American people will be excited about the results, another 1/3 will be angry, and a final third won't care at all. You may be worried about it. Don't be. I really do not think many people are going to be so upset about the election results that they just decide to sell stocks and hide in a bunker. In fact there will probably be more people that get excited enough by the results no matter who wins to buy stocks than there are selling in anger, because people really don't sell stocks based on who the President is. They really sell because stocks and markets drop at times. Then they get stressed out so much that at some point they can't take it anymore and press the sell button to relieve themselves of the misery they are feeling. But never has the stock market crashed after a Presidential election.



It is selling panic after corrections and bear markets that create market bottoms. But bull markets also cause people stress and the more you watch the market and listen to the news the more stressed you will end up, because you will try to make sense of every little gyrations in the market and make meaning out of it. As humans were are rigged to want certainty at all times so when we see our stock moves we want to know why, and if they move down we want to

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97.34	94.64	94.34	94.03	93.68	93.28
94.63	93.48	93.05	92.51	91.88	91.18
88.32	86.54	84.64	81.95	79.48	76.34
74.36	69.02	65.48	60.32	56.54	53.02
64.33	59.95	56.34	54.36	52.84	51.95
44.54	43.10	42.32	41.32	40.15	39.02
38.65	37.87	37.34	36.34	35.34	34.34

MICHAEL SWANSON

know that everything is fine.

Aristotle famously said that "man is a political animal." Think about that phrase. What does it mean? As a political animal what is it an individual desires? We need food. We need shelter. Just as all creatures do. But we think and speak too. So how do we fulfill our needs as a political animal?

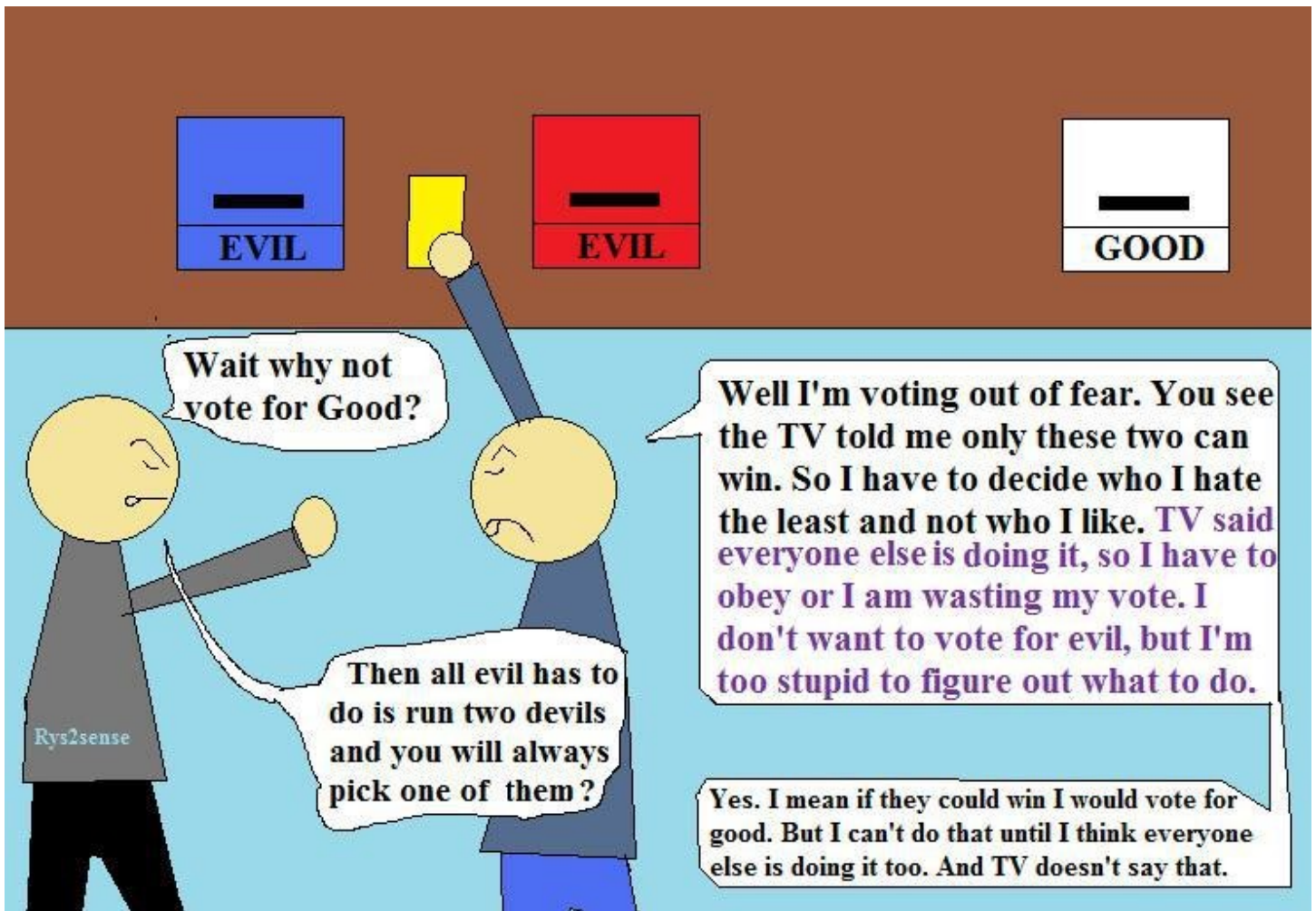
We do that through companionship and by being part of a group. If you rationally think about the election and the economy the problems that this country faces now have not been caused by one single person or one single party. George Bush did not create the economic disaster that President Obama has inherited. You can say Obama has not made it better, but he is not the cause of the country's malaise. Both parties are and both of them are simply creatures of the system they are both a part of. The secular bear market that started in 2000 and the financial crash of 2012 were events that were the result of over thirty years of misguided policies supported by both political parties.

So it is pretty foolish to think that the loss of one candidate or the election of the other in this election will bring some huge change. Most people know that. That's why a large portion of voters won't even show up at the election polls next week and if you ask anyone even the most partisan of Republicans will tell you that Mitt Romney won't be able to change everything nor will any Democrats tell you that Obama is some sort of superman - that is if they are honest with themselves.

But despite that a lot of people are really into this election. They have chosen to hate one side and root for the other no matter what just like they would at a football game. Democrats who hated the Iraq war when Bush was President say nothing about the Afghanistan war and Libya mess in order to support Obama while many fundamentalist Protestant Christians in my neck of the woods who used to support the Christian coalition back in the 1990's have no problem at all with backing a Mormon for President, even if the Mormon church teaches that they will be lost or damned to hell unless they accept the teachings of Joseph Smith, who they see as having brought restoration to the body of Christ through the assistance of the Angel Moroni. Many people just want to be a part of the political game and will bend their beliefs to do it.

It is because they are political animals. The election is giving them a grand feeling of belonging and letting them feel like they are a participant in a thus versus them battle without having to take any risks themselves. All they have to do is sit in a chair, listen to the political TV channel or commentator of their choice, declare people who don't think like they do as devils, and that's it. Oh, show up and vote. The whole process makes them feel good and feel like they are doing something, when in reality they are doing very little at all.

The partisan fanatic poses as a knowledgeable thinker, but all he



does is learn the correct slogans to repeat. In fact it may be that the more partisan and political a person is the more neurotic they are. People who seem to talk at you self-righteously without listening to a thing you say always seem to be severely sick and sad people. They usually just don't know how to connect with others and use partisan political ranting as a way to do it. You probably know someone like this and you've probably learned to avoid them like the plague—lol. In reality they are people with zero political power and influence. They are simply a member of a herd. They are a speck in a mass.

You can be more than that. The truth is if one really cares about politics as much as one thinks they do they would do more than simply watch TV, rant, and cast one vote. They would be real activists and try to connect with people on a meaningful level whatever way they best can, whether it be donating money to an organization to do it on their behalf, writing, making art, or talking and listening to people for real and not just repeating slogans.

Man is a political animal. For the American political maniacs grown up on watching TV the simple way does succeed in giving them a feeling of being important and a feeling of certainty, and as human animals we all want that. And if you look closely at the things you do you will find

that many of them are done just for this reason. So the teenage kid gets into the right fashions and listens to the correct music to fit in with his peers. The rich many gets the flashy car. You buy an Iphone or some other hot gizmo. Everyone does it, but the more at peace you are with yourself and the world the less of this stuff they need.

All of these things - from getting caught up in this election to buying junk, to watching TV - are actions done for one reason - to give certainty. To make one feel that one is ok and acceptable to others. To fit in. This is what it is to be a political animal. This is why the two party system in the United States will always exist. It may not bring the best government possible, but it provides the perfect two sided us versus them battle to suck you in, even if the issues fought over are often meaningless and the two parties are more similar than they are different. The two part system provides the best great game for the neurotic to cheer for. It lets you feel like you are a part of something big and everyone needs to feel a part of something and to feel like they are ok because they are part of a group, which provides one with a great feeling of personal certainty in an age in which people have turned away from religion. And in the television and Internet age all you have to do is watch.

This is such a deep seated human need, just as eating is, that we all seek out ways to fulfill it without thinking about it. It's animalistic and therefore subconscious behavior. The best way to get away from this is to recognize it, and the only way to do that is to cut yourself off from the television, the news media, and even food for a period of time. Get away from the media, turn off the phone and the internet and fast for a few days and meditate and you will realize how you are so caught up in this. Perhaps you will come to realize that there is no such thing as certainty. There is only faith and you won't get it by worshipping Obama or Romney. Go vote, just don't take it too seriously.

What does this have to do with investing? Everything. This quest for personal certainty plays out in the stock market and does so in a damaging way for the individual in the market. It is human nature to feel you are right when you do what others are doing. That's why people love being part of the group and obeying the dictates of the herd. It's why so many people buy into tops and sell on bottoms over and over again.

You see major market tops come when everyone buys in and there is no one left to buy. Then the market has nowhere left to go but down. Think back to the insane peaks of the real estate bubble six years ago and think back to what people were doing then. It had to end and it did. The last secular bull market came to an end in 1999 when everyone in the world who could was in the stock market investing in mutual funds, buying internet stocks, or trying to daytrade.

Is everyone in gold now? No. And they sure aren't invested in Europe, lol. And most people are scared of the stock market too, as evi-

dence in skittish investment surveys and the fact that people have taken more money out of the stock market than they have put into it this year. Much of that money has gone into bonds yielding nothing. That is how cautious people are.

What this means is that to be a successful investor in the stock market you have to go against your human desire to want to be a part of the herd. You have to be a contrarian. And the simple truth is that most people simply cannot do this.

Institutional investors aren't much better. They tend to all pile into investment fads. Right now that is hedge funds doing "program trading." Ten years ago you never heard of such a thing. But in a US market in a mature cyclical bull market without giant swings up and down it is a working strategy. But one day that will change and most of these funds will go belly up when it does. When it does most of the institutional investors who bought into the strategy because it's the fad of the moment, just as the masses buy into tops, will lose too. There is no way you can have 5,000 individual computer programs trading the market and making money from now on to forever. Eventually most of them will break down, because the market environment will change.

I speak about all of this from experience. I learned from hard lessons. When I started out in the stock market I did mostly short-term trading, because instant results provided me with more certainty than trying to invest in something and sell it years later. That took faith and back then I rather feel more certain about the moment than believe in the future.

Back in the late 1990's I was lucky because this was the right thing to do. Many internet stocks went to zero and the stock bubble popped. But it wasn't right for gold in 2002. Nor for the stock market in 2008. I got out of the market and stopped trading a year ago when it looked like a big top was coming in the world markets and much of the upside was over for the US market and decided to step aside for awhile and then invest when the time was right. I then got in again after Europe bottomed, with the plan to invest there and in commodity related issues for the next few years.

I looked back at my experience as a market participant and realized that even though I did make a lot of money trading I would have made more and had an easier time of it if I invested. In the long-run you can't beat investing in the right things.

But its different than trading. If you want to make a lot of money trading the best thing to do is use big positions and tight stops. You have to be willing to cut your losses quickly when you are wrong and be on leverage when you are right. That's if you want to make big money trading.

Investing is different. You have to control risk, but you can do it differently. The most important thing is to be generally correct on the big picture and to NOT TRY TO BE CERTAIN AND EXACT. The more certain you try to be as a long-term investor the more you will likely mess up. If you are right on where things are going to be a year or later than what happens today shouldn't matter. Therefore paying attention to short-term gyrations and daily news actually can hurt you by encouraging you to get shaken out of your positions. With investing its best to watch things less closely than more closely. All you need to do is look things over once a month.

You just have to be right on the general direction of the markets and sectors you invest in to succeed. That's it.

And that's a lot less to try to figure out than if you do short-term trading. That makes it easier to do, but you still need to control risk.

You can just do that differently. As a trader I always used stop-loss orders on my positions. After I bought something I'd put in an order that said if it fell to a certain level I'd get out. Then I'd be out of the position, in cash, and looking for another trade.

With investing instead of thinking about individual positions I'm thinking about my account as a whole and managing the risk that way. I'm not using stops. I get several emails a day asking where my stop loss orders are. I'm not using any.

Instead of individual stops I'm managing my risk by having small positions. I have a mental stop on my whole account. I have generated a lot of gains in the account since I started to invest with it a few months ago and if it were to fall to being even I'd probably do a lot of selling. It would take a big drop in the markets for that to happen - and one big enough that it would make me wonder if my bullish stance on the global markets is still correct.

When it comes to individual stocks though I'm controlling my risk by using small position sizes. If I put 10% in a position and it drops 10% that is just a loss of 1% on my whole account. Even if it fell to 0 that would just be a 10% loss. Not fun, but not the end of the world. My plan is to simply evaluate all of positions periodically and do some selling of ones I know longer like after we have seen decent rallies in the market. Then do buying on corrections like I have done a few times in October. If you remember I sold two positions in September to get some buying power to use in October on a dip.

Now we saw the market peak in September and dip in October. I fully expect that it will end the month of November higher than where it starts the month. And I also expect to see the market rally in December too and into next year. At some point next year though, probably in the Spring, we'll likely see another top in the market come and at that point I plan

on doing some selling of some of some of my positions. But I'll worry about that when the time comes.

The point is I'm managing my money differently now than I did when I was more of a short-term trader. I'm making a lot fewer trades and using smaller position sizes to manage the risk.

I get emails all of the time and most emails that ask about positions I own usually ask about ones that are in the red and have losses. I may have 20 stocks up, but I won't get emails about them, just the two or three that are in the red. It's because if someone owns something that is up they aren't worried, but if they have something down they are scared and want certainty that it will turn out all right. Sometimes they want to know if they should sell or buy more. FTE and TNK are the stocks I am currently getting these questions about right now.

I can never give a good answer to this question. I know what I'm doing, I am holding and will evaluate the position they are asking about in the context of my whole account later. Just because something is acting weak right now doesn't mean it will continue to do so next month. But the real problem is I have no idea what this position means for them or their account. If they put a huge amount of money in it then they should probably sell it and buy something using a smaller position size. If they don't have much money in it they probably shouldn't worry about it.

That gets back to the quest for certainty and the stock market. You will never be fully certain about what is happening in the stock market. No one can predict exactly what the market is going to do. People want to know that instinctively, but they can't. Unfortunately, some people get sucked into believing crazy stuff like Elliot Wave Theory to fool themselves into feeling certain about the market, but in the end you can't know everything about the market or predict exactly what is going to happen.

To successfully invest in the market you have to admit to yourself that you don't know everything that is going on or everything that will happen.

But it's ok. You see all you have to do is know two simple things. What is the big trend? And what markets and sectors based on their technical position and valuation have the most upside potential?

You will never know exactly how these markets will go up or down, but all you have to do is pick the ones you want to be involved in and then buy the dips when they happen.

I have chosen to invest in gold stocks, commodities, and European markets, because I believe they have the most upside potential over the next few years, because they have cheap valuations and appear to have just started new bull markets just a few months ago whereas the US market is overvalued and is over three years in a bull market instead of just start-

ing one.

To invest I'm using dips to buy, even though I can't perfectly pick the exact bottom, and evaluating my positions and doing some selling after rallies play out. Once I think these bull markets are near their end I'll stop playing them and look to have more of a cash position or to invest elsewhere.

I'm also using margin and leverage, which isn't really appropriate for most people, but I have enough experience I'm not worried about it and I also have more money so even if I lost everything I still would have plenty of money I would get over it. If this was all of the money I had I probably wouldn't use margin, but I'd still probably have the overall positions you see.

The point of all of this is that instead of trying to figure out everything that is going on everyday in the stock market and picking exact bottoms and tops in my entry and exit points, which is impossible, I'm investing based on the faith that I have identified the best markets to invest in and controlling risk with small individual position sizes and doing some selling on rallies and buying on dips.

Ok, let's look at the markets quickly. Last year the US markets were acting better than almost every other market in the world. This year, since the world markets bottomed in the summer, we have seen the opposite happen. For the past few weeks while the DOW and S&P 500 have gone lower most European markets for instance have simply gone sideways and are now in a position to breakout to new highs and rally before the US markets do. Gold and gold stocks are doing the same thing too.

Based on the recent action in the US market we have seen the market averages try to hold around the 1400 level of the S&P 500 for the past few trading days and as I write this it is bouncing off of it. Next resistance is in the 1430-1443 area, which coincides with the downtrend line connecting its September and October highs and the 1/3 and 1/2 retracement zone of the September high and October low. My guess is we'll see the S&P 500 rally in this area and then stall out. It should then either quickly pullback to the October low to form a double bottom or simply go sideways a week or two and then break through this resistance zone and head straight to its September high. Then the next move up will be on. Bottom line is I think we have seen nothing but a pause in the cyclical bull market that has been going on for the past three years, but bigger moves will take place in gold, commodities, and global markets - and



breakouts in these markets are likely to not only dwarf what happens to the S&P 500 but even happen first. If you have wanted to buy on this correction, but haven't yet then you need to realize that it is impossible to buy on an exact bottom and just have to be willing to accept that fact.

Right now Ireland is the most bullish market in the world I see right now. It has formed a three year stage one base and its 200-day Bollinger bands are coming together, which is a sign that it is likely to breakout of this base soon. Ireland is also one of the cheapest stock markets in the world in terms of valuation. I have invested in it through the IRL ETF. Right now its my top investment.

I was calling Greece the investment market that had the best potential back in August and bought into it through the GREK etf. It then rallied so much in September that it became the largest gaining stock market in the world. However, it has pulled back sharply the past few days in what I think is a mere correction in a new bull market. GREK has gone up over 100% since its June bottom so a sharp correction was inevitable at some point. I have gotten some emails about it today asking if I've changed my mind or if now is a time to invest in it. No I haven't changed my mind and the position I bought back in August is one that I consider a long-term position that I do not want to sell anytime soon. As far as buying now, I don't know if today will mark the exact bottom of this correction. I really cannot predict that. It might be best to just wait until its next up day and then just buy a small position if you are interested in it.

This is a chart of GWL, an ETF that invests in big cap stocks outside of the US. It is a way to track the global markets. You can see that it is acting better than the US markets and closer to breaking out and that there is no reason to look at this and be bearish at all or think some big crash is coming. So stop worrying! Don't fear Romney/Obama.



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