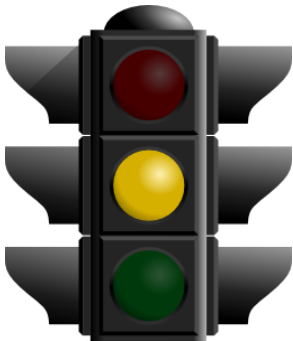




Stock Market Barometer

The Most Influential Financial Newsletter Read By Over 500 Hedge Fund Managers and Thousands of Elite Investors ~ Sept 1, 2014



TREND ALERT — The November bubble bull rally brings complacency. No one expects a drop.

The Oil Drop Will Bring Opportunities (12/01/2014)



As you probably know oil prices broke through \$70 a barrel on Friday and fell 10%. Many oil stocks fell much more than that, with some down even 20%. Oil prices have been under pressure now for several months due to a fall in demand thanks to a slower global economy and US economy and an increase in supply thanks to fracking and the new shale oil industry in the United States.

OPEC met this week and there was talk that the OPEC nations might come together and agree to cut production in order to stabilize prices.

Instead they did the opposite. If you read press stories about the meeting you'll find that the Saudis do not mind the lower oil prices. Some con-

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97.54	98.85	65.32	89.89	99.74	98.63
54.63	54.64	84.54	54.63	98.63	54.63
51.85	95.48	98.63	51.85	54.64	95.48
785.32	96.54	54.64	51.85	95.48	96.54
54.36	05.02	95.48	785.32	96.54	05.02
63.32	15.95	96.54	54.36	82.84	15.95
84.54	156.10	65.32	65.32	75.15	156.10
98.63	181.82	84.54	84.54	36.54	151.82
54.64	15.95	05.02	98.63	96.21	36.54

MICHAEL SWANSON

spiracy believers think that they are working with the United States to make oil prices drop in order to hurt Russia's economy, but in reality the opposite is happening. Our nation's wonderful allies the Saudis are taking a shot right at the emerging shale oil industry in the United States to put it on its knees. They do not want the United States to become energy independent, because they want the world to remain in need of Saudi oil. It is about maintaining their market share and making sure that the United States foreign policy establishment continues to remain aligned with its desires.

As for Russia, I read an interview with an official there who said that they are well prepared to storm more weakness in oil and expect that it will continue for at least another six months.

The problem with shale oil is that it costs over \$70 a barrel on average to produce, so now many shale oil operators are going to start to lose money. It will probably take a year of low oil prices to destroy the boom towns that have sprouted up in the Midwest so a year of lower oil prices is what we are likely to get.

This is why I have answered "no!" to several people who have emailed me asking if I thought it would be a good idea to buy oil stocks in order to take advantage of Friday's big drop. I just think the prices are going to fall more and probably remain low for some time to come.

In fact if you just look at the price action on the chart on the previous page the drop in oil below \$70 is very similar to the drop in gold in the spring of 2013 when it broke through \$1,550 an ounce. That \$1,550 level had acted as support for almost two years and when gold broke through that level it took a big drop and gold stocks plunged.

Oil's \$70 price support level has held for over three years. The last time oil broke a major support level that held for this long was way back in 1998 when it broke through the \$18 level and continued lower for over a year. The drop in 2008 came after a climatic blow-off top so that was a bit different.

I do think that eventually this drop in oil prices will lead to an absolutely wonderful time to invest in oil companies and there are a lot of them to choose from and many pay big dividends so it will be an exciting moment when that time comes. I plan on making some investments in the sector when the time is right, but I think it will probably be at least six months away and may not even come to well over a year from now.

Oil may end up falling to \$50 or even \$40 a barrel. I have no way to predict how low it will go and there are people inside the energy industry who are much smarter than I am that may have an idea. There are insiders who in fact knew this drop was coming and are now making a killing on the short side.

I know this for a fact and will show you the evidence in a second. First to understand what is happening in the oil market I need to show you something about the gold market. I use the commitment of traders reports



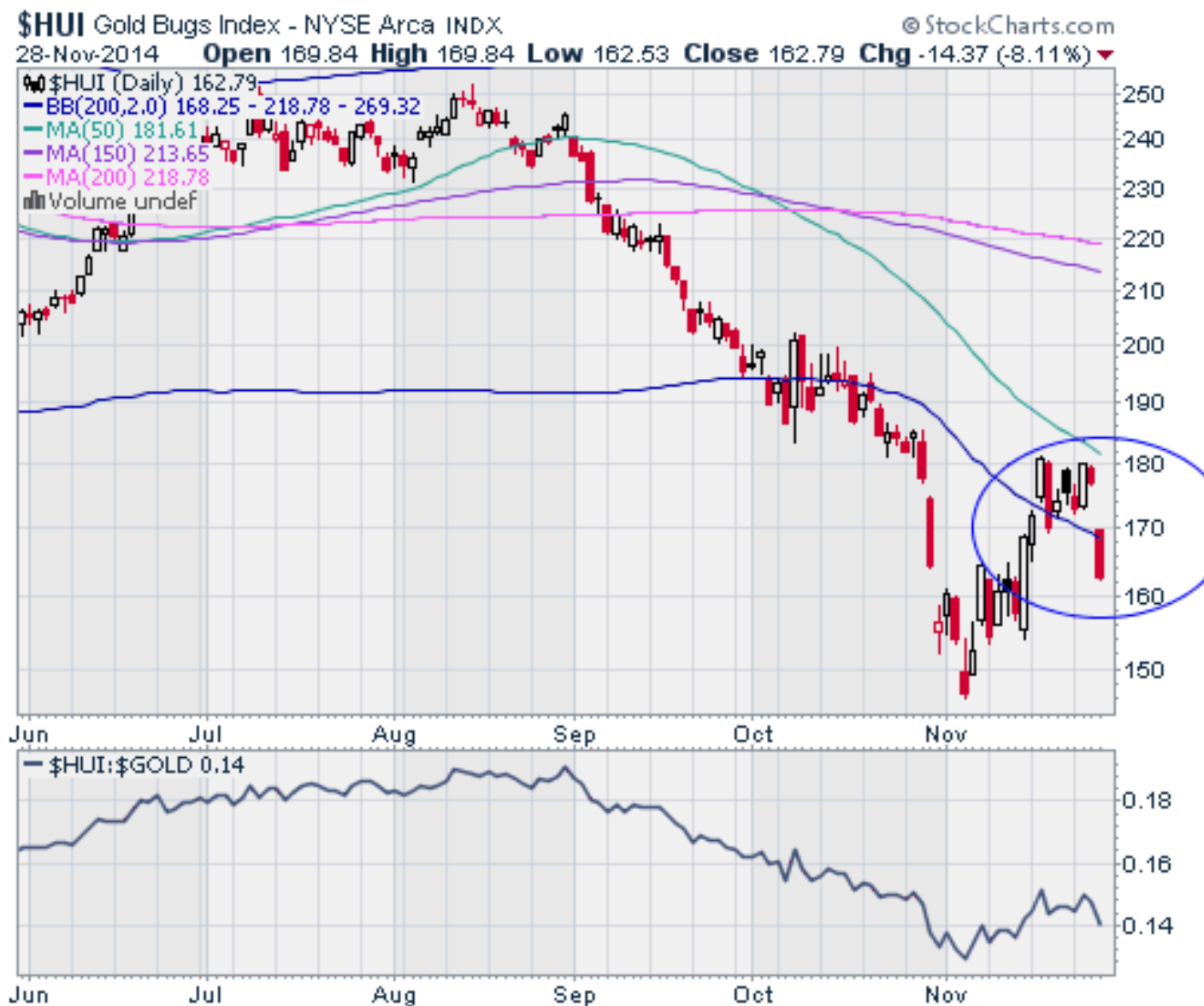
to see what is happening inside the gold futures market. They are released on Fridays by the CBOE and break up the activity in the futures market by different categories of traders. They show you how many contracts have been bought and sold by large professional traders, such as hedge funds, giant commercial operators who use the market for hedging purposes, and small individual traders who tend to be positioned wrong at key market turning points. That's no surprise as the masses tend to be useless when it comes to investing and just follow the mass consensus to wherever it takes them.

Now this week due to the holiday the commitment of traders report is delayed until Monday. But you can see the recent data for the small players in the gold futures market. The red line above shows you the number of contracts held by small individual traders in the gold futures market. The screen shot is from the website timingcharts.com.

Gold topped out in 2011 and then went sideways above a \$1,550 support level. It looked like it broke out in the Fall of 2012. You could have drawn a trendline connecting the highs and identified a breakout then. Gold rallied sharply that Fall, but that rally pooped out and then gold slowly dropped until it broke support in 2013 and dropped hard.

Take a look at what the small players did on that bear trap rally. In the Fall of 2012 they bought a ton of contracts in the gold futures market. They bought so many that they actually owned more gold in the futures market on that rally than they did when gold topped out in 2011. In fact they owned a record number of gold contracts! If you judge by people's actions they were more bullish on gold in the Fall of 2012 than they ever were before.

Big drops in markets are fueled by selling. It takes a lot of sellers to make a market crash. And the thing is the little guys bought so much gold on that rally that they had a lot to sell when gold fell through



support in 2013. That's why the drop in the spring of 2013 was so violent. Now look at what they are doing now. The red line is below the number zero. This means that the little players in the gold futures market are actually short gold now! This means two things. First it means that it is practically impossible for gold to have a giant crash right now. It means that the predictions for gold to fall to \$800 or \$900 or \$1,000 are nonsense.

It also means that people are now so bearish on gold that they have positioned themselves for a short squeeze once gold goes up!

Now gold and mining stocks fell on Friday. The way I see it though they bottomed the other week and rallied up 20% from that bottom. They look to me that they are now likely to pause a few weeks and then go up again. \$1,205 is now the new resistance point on gold and so is 180 on the HUI. Few people believe gold has bottomed and most are still bearish on it so undoubtedly some simply sold their position on Friday and others probably tried to short. We have this Swiss Referendum vote that has been

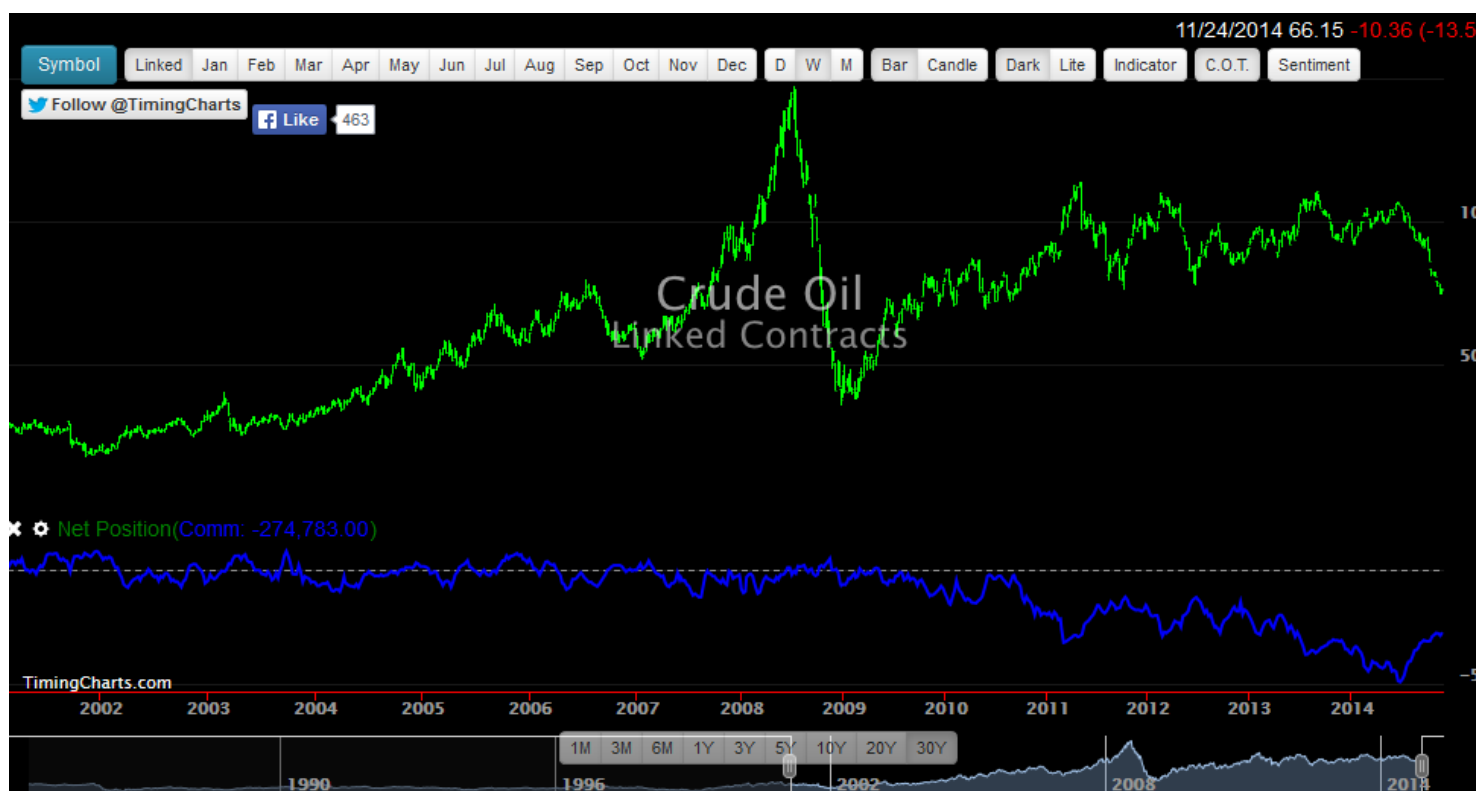
talked about by many going into this weekend that is unlikely to pass. If you don't know what it is this is a referendum to force the Swiss central bank to go on a defacto gold standard. There probably has been some selling ahead of that vote, which is unlikely to pass.

We should see gold and the mining stocks bottom this week to form a new low and then for them to base a bit before breaking out. If it all plays out that will make for a great entry point to buy more. I've bought some in the past two weeks and will likely buy more before the end of the year. I also will have more recommendations for individual stocks for Power Investor members every week.

Now the commitment of traders report also shows you what commercial hedgers are doing. These are companies that use the future markets to take short positions in order to lock in production prices. They tend to always be net short, but they reduce their net short positions at key market bottoms. In gold historically they have held between 40k and 70k net short contracts at key bottoms. They got to about 50k a few weeks ago and as of the most recent data are net short 70,997 contracts.

The reason why these guys tend to be right is because there is a big difference between someone on the inside of an industry and someone who simply reads about it and invests in it no matter who they are. They have an intimate knowledge about what is going on, because it is their life.

Look at the chart below. The blue line is the number of oil futures contracts held by commercial operators and giant players. By July of this year they had increased their short position so much that it became an all time world record. They reached a net short position of 462,000 contracts. Each contract represents 1,000 barrels of oil. That's



462,000,000 barrels of oil they shorted. It's obvious that some giant players saw the drop coming and completely hedged themselves. We cannot know who they are, but we know what they have done. If the American shale oil industry gets smashed over the next year you can bet that the Saudis will be laughing all of the way to the bank. Some of them were laughing when 9/11 happened too.

We can only watch and take advantage of things as they play out. It all means that it is too early to buy, but one day a great investing opportunity will come. You can bet the commercials will greatly reduce their short position in the oil market before the next big oil bull market comes. It might take a year for that to happen, but we can take advantage of it when it does. You don't forget about it between now and then.

That's easy to do, because when you turn on CNBC or look at financial websites in the United States all most people talk about is the action in the S&P 500 and the Nasdaq. They went up last week like they historically almost always do the week of Thanksgiving. However, I wouldn't be surprised if we don't see them pullback in the first half of December. People talk about end of the year rallies, but historically it is a drop in the first part of December that helps bring those end of the year rallies into reality. What is more we have seen some technical internal deterioration in the markets over the past few months as few sectors and stocks led the rally. The percentage of stocks on the NYSE above their 200-day moving averages did not go up in November even though the market did and there are actually fewer of them in this bullish position now than there were at the highs of September and July. This is the type of thing that



happens at the end of a bull market and typifies a stage three topping process.

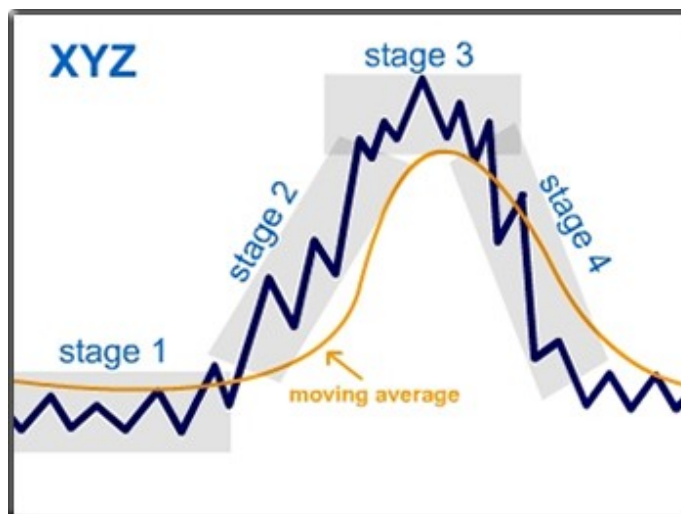
The S&P 500 could easily drop in December like it did in the beginning of August and then bounce.

In my view the US stock market is a trader's market. It's all about playing momentum and if you want to play that game you have to be willing to take profits when you get them and understand that you are playing against computer robots. That's a tough game to play and instead of recognizing that most people right now just want to believe that the stock market will up forever for them so all they have to do is join the masses and buy and believe. It works until it stops working.

Now if you ever wonder what type of person someone is all you have to do is ask them about the NSA and Snowden and see which they like and which they do not like. The message on TV was clear when it comes to the NSA—you must learn that in life you have to be like everyone else and obey, because in obedience comes comfort. Yes it is true that the Bill of Rights was designed to protect the rights of the individual from the government, but since only the group brings you safety they say that it does not matter anymore. You must be happy to be perfectly mediocre, no better and no worse than anyone else. Individuality is a monster that must be strangled in its cradle to make your friends feel good. I have often thought that the gangsters, artists, business barons, and movie stars are all the same in the eyes of the masses. They are admired and hero-worshipped, but there is always present an underlying wish to see them destroyed. And at this moment it is Bill Cosby's destruction that is unfolding for the masses on TV and on the internet. Next month it will be someone else.

Now if you want to invest for real than you have to look at markets and sectors that have already gone through a bear market and where valuations are cheap. In my view gold and mining stocks made a crash bottom a few weeks ago after topping out in 2011.

One mining stock I have bought recently is Crocodile Gold. It trades on Toronto stock exchange with the symbol CRK and is trading with a market cap of \$66 million dollars so it is a small cap junior mining stock.



Crocodile Gold is based in Canada and has purchased four key mining properties in Australia. In 2013 it mined 74,000 ounces of gold from its Cosmo mine. Thanks to capital investments it is set to produce up to 95,000 ounces of gold from this operation this year.

It also produced 27,000 ounces of gold from its Stawell Mine last year and will produce similar numbers from it this year. It also produced 98,000 ounces of gold from its Fosterville Mine in 2013 and is on track to mine 90,000 to 100,000 ounces of gold from it this year.

It is also exploring and developing a project on its North Hill property and currently engaging in an NI 31-101 compliant feasibility study for it, which should be completed in the next months. Pre-study projections are for 160,000 ounces a year in gold production.

What is neat though is that the company's operating costs for its mining operations was an average of \$1,027 for an ounce of gold when the industry average is \$1,200 an ounce. This means that Crocodile Gold is cash flow positive and able to finance further explorations and expansion activities.

It also has a management team with a track record of huge success. One on the board of directors is Peter Tagliamonte who was the President and former CEO of Desert Sun Mining, which was one of the best stocks I ever owned. I bought it for under \$1.00 a share and saw it go over \$9.00 and then get bought out by Yamana Mining. The team as chief geologist is also Mark Edwards who helped develop the Mupane Gold Mine for IAMGOLD.

The company has 6 cents a share in cash and is trading right under key resistance at 16 cents a share with support at 14 cents a share. It is trading at 0.54 of book value and with a price to sales ratio of 0.25. That is what the recent crash in mining stocks has done to the valuations in some of them. My plan is to use the gold stock ETF's to own a core position in large producers and buy miners big and small with low PEG ratios around the ETF's in the coming weeks. I like to average in instead of buy all at once.

This is going to be an interesting week in the market. Everyone is complacent thanks to the recent rally and getting very lazy about things. I expect the market will wake them up this week.



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