



Stock Market Barometer

Power Investor Group is Now Closed For The Year To Any New Members, But Look For A Special New Product Announcement On January 1, 2016. ~ December 1, 2015



The Trouble With Stocks –Mike Swanson(12/01/2015)

I titled the monthly newsletter for last month "Expect Market Volatility To Shrink In November" and it certainly did that. The S&P 500 is set to close as I write this Monday morning not even 10 points away for the month of November than where it closed October at.

And last week the S&P 500 didn't even move a percent from where it started the week at.

Volatility shrank. And it did this not because I have a super computer that can predict the future, but because when you have a large move in the market like we saw happen in October that is simply what tends to almost always happen.

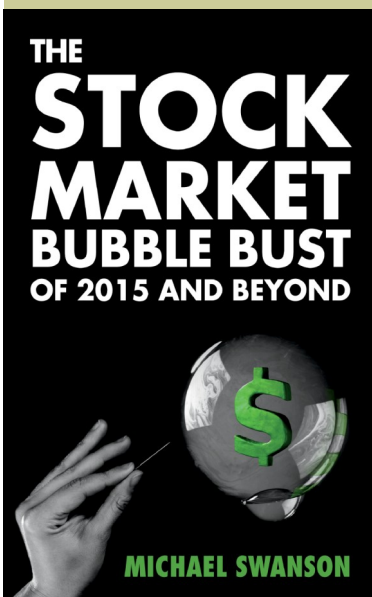
And the low volatility looks to continue for the next few days at least. But when it ends we can expect the stock market to dump again, because the overall stock market structure is now bearish.

The stock market is either at the end of a stage three topping phase or the start of a stage four bear market. There really isn't much difference though. During both times what you see happen are the market averages go through their 200-day moving averages and then rally back to them where they stall out and go sideways for a period of a few weeks before they start another leg lower.

We have seen gold and mining stocks do this several times since 2011 and oil stocks do this twice since they peaked out last year.

During that first rally back above the 200-day moving average though in a bear market just about eve-

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ryone thinks that the market is going to breakout to new highs and take-off again like they have seen so many times in the past few years. Such people do hear and see signs that things are different, but simply do not want to accept them as they remain in the denial phase of the bear market.

That is where we are now. Anxiety came in August when the market dropped and denial now reigns.

What is funny is that the stock market really hasn't done much all year or all week, but people talk as if it is still in an incredible bull market. They want to believe that the stairway to heaven rally that happened in 2012-2014 is going to start again whenever the stock market has an up day.

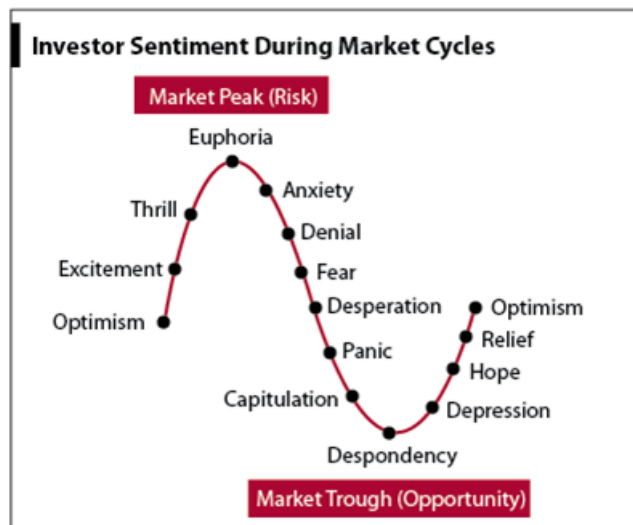
But it isn't, because the internals of the stock market started to deteriorate over a year and a half ago and collapsed this August and failed to improve much during the October rally.

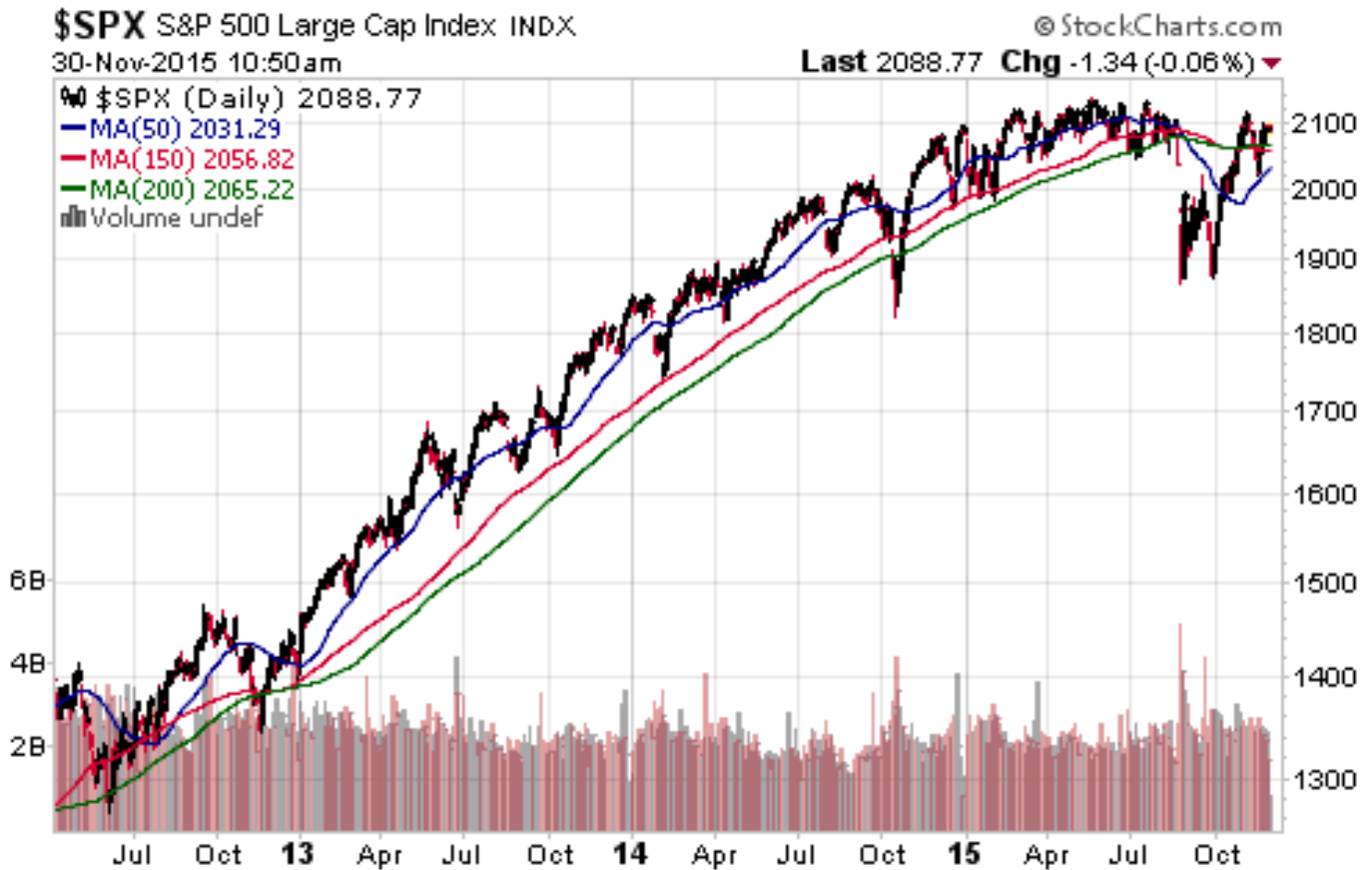
If the August drop was a normal correction in a bear market than we would have seen many stocks go to new 52-week highs and beyond during the October rally, but this did not happen. Instead it was about two dozen big cap S&P 500 stocks that provided the market leadership. There was no new emerging sector that asserted leadership. It was just the same few big cap stocks that attract trading robots.

And as I explained in this weekend's Power Investor update the fuel that really drove stocks higher during the stairway to heaven rally has been unable to do the same this year and is going to run out of gas next year if it hasn't already started to do so. It's unsustainable fuel. It isn't Fed "manipulation" or the Fed directly buying stocks that has helped the stock market, but something else that the Fed has done. If you are a Power Investor member make sure you read the latest update. This monthly newsletter goes out to people also on my free email list and they do not know what we are talking about in this paragraph.

This monthly update goes out to the general public so in it I just give an overview and talk about only the basics to give them a good grasp of the big picture.

There is one simple and short point I want to make for everyone.





As you can see from the last chart the percentage of stocks that trade on the NYSE below their 200-day moving averages still remains below 60% despite the fact that the major market averages rallied above their 200-day moving averages in October.

But the situation when it comes to individual stocks is actually worse than it seems. Right now the S&P is up year to date about 1.5%. So the stock market is barely up at the moment for the year.

However, most stocks are down. 238 of the S&P 500 stocks are down year to date with 31% of them down at least 10%. But it's worse than that. The S&P 500 is where the buying is, because money flows into all S&P 500 stocks thanks to ETF's, computer programs, and mutual funds.

There are over 5,000 stocks that trade on the NYSE, Nasdaq, or NYSE. 40% of them are down at least 10% year to date. 29% of the stocks are down at least 20%. CNBC and Wall Street people like to claim that a bear market is when something falls at least 20% from its 52-week high. Well just about 50% of all of the stocks are in that condition. So half of the individual stocks in the stock market are deep in bear markets already.

So the stock market averages have simply been held up by a few stocks while most stocks have been falling.

This means two things for you. First of all if you have a brokerage account that is made up of lots of individual stocks the odds are that you are badly lagging the market this year and may even be down for the year,

because most stocks are falling. Most hedge fund managers are doing bad this year. So such losses are not caused by any poor stock picking skills on your part. The reason you are losing money is because the stock market is simply sick and so most stocks are falling and causing money losses.

That is what happens at the end of a bull market and at the start of a new bear market. So you can recognize that reality and make changes before the end of the year. If most stocks are acting poorly and you want to trade stocks than you might want to strongly consider developing strategies to bet against individual stocks.

And that is the second thing this means. The stock market averages are likely to catch the sickness from the mass of individual stocks in the market and experience some big declines next year. I consider the August drop a simple sneeze that represents the start of a big sickness to come. The market went back up to the 200-day moving averages and TV tells us everything is great so most people ignore it, but this is a serious condition.

Now bulls who read this will argue that well if stocks are down so much then they can go up and make the market take-off. Maybe stocks are just oversold. Well my answer to that is go and spend a day looking through a thousand or so stock charts. You can do this in a few hours using TC2000 or their free version at freestockcharts.com.

Most stocks got hit really hard in August and many did not rally much at all in October. Some are simply falling and falling. For these stocks to go up they would need to go sideways for several months in order to build a solid base to launch a giant rally off of.

So the best case scenario for the stock market is that it continues to go sideways like it has this year for a few months while all of these wrecked stocks stop falling and base out too. That's a tough thing to just hope for though, because what is more likely is that the market averages dump with everything else once the leaders go down.

The implication is that there is no reason to make big buys right now or to try to buy into individual stocks as a whole. There are only a few stocks doing good. You can try to chase these "momentum stocks" if you like, but they can top out any second and it's really impossible to predict what stocks will somehow be able to break away from the market sickness for a period of time. What is driving such stocks is fuel that is going to dissipate as I mentioned before too. So right now at the start of this month we are still in a pause type situation much like we saw at the start of August when not much seems to be happening. But the pause is likely to lead to another market drop into the Fed meeting this month once the S&P 500 closes below its short-term support level of 2,070. I would not be surprised if we don't see a tumble towards 1,950 this month into the Fed meeting and then a weak end of the year rally. Of course those who bet against the market and individual stocks will make some coin.

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