New Years Resolutions and Time—Mike Swanson (12/03/12)

"New Years Resolutions" you are probably seeing that in the title and thinking its too early for that! Or you are thinking uggg don't remind me I want to get in shape or lose weight and will have to think about that in a month. Let me not think about that now!

Don't worry, because I don't believe in New Years resolutions. Everyone knows that they rarely work. That said I DO think about the past year and the future around New Years. I do look at the stock market and plan ahead at the time of year, because I find it a great time to do that.

But I don't make giant resolutions, because they don't really work. The problem is way too often they are too vague to mean much. You need concrete goals that move you in the direction you need to go. So if you want to lose weight just try to lose a few pounds between now and the end of the year and then go from there with a new goal. The important thing in accomplishing goals is simply taking steps in the right direction. New Years Resolutions are all too often to big to be real. They feel good to make and then are quickly forgotten.

What does work in making changes or accomplishing things is making simple deadlines for yourself. So if you want to really learn about the stock market don't say you'll do it next year. Say you'll take a step in that direction by reading a book or two about it this month and then go from there. Or sign up to a service or course or whatever. Just take an action.

I've got a goal I'm going to hit this month. The picture you see on the right is a 230+ page manuscript I've been working on this year. I plan to have it finished by the end of this year. Then I'll be in a position to publish it next year - probably in the Fall. I am in a position to accomplish finishing the draft of this book, because as the year has gone on I have set deadlines for finishing parts of it. People sometimes think of time as an enemy, but with the use of deadlines I have made it my friend. I did not write this book by making some giant goal of writing a book in 2012 at the start of the year, but by setting small achievable goal based deadlines for it as the year progressed.

You are probably thinking that's cool, but you are probably also wondering what does this have to do about the stock market? The factor of time has everything to do with investing, but it is something that no one really writes about and we rarely think about.

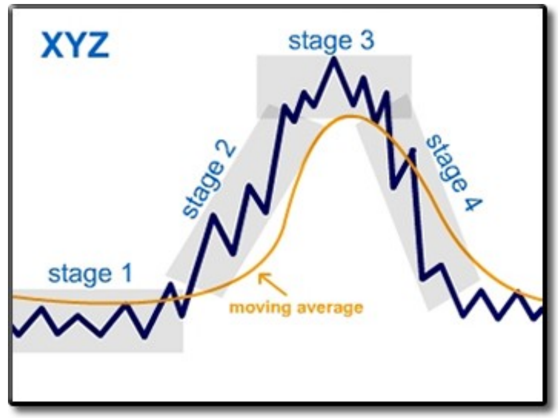
What we react to is changes in price. If the market is down big one day and we see our positions down we can feel scared or uneasy. We feel uncertain and often will crave an explanation. You can turn on the TV and get one. Whether it is real or not you will get one - and obviously people like the explanations for things that the TV gives them, because they keep on watching it.

That is something that amazed me in 2008 when the stock market crashed. CNBC analysts all year were saying that the banks were fine. They said there was nothing to worry about. Ben Bernanke said there was no housing bubble. And even though everything crashed people still believed in CNBC and believed in Ben Bernanke. There was no outrage. If there was Obama would have had to remove him from power when he became Presidnet. But he in fact brought even more Wall Street people that backed the wild policies that helped bring about the crash into his administration. He brought in men like the Timothy Geithner and had brought mainly Wall Street men into his administration.

To name one example, President Obama's current Chief of Staff is a man name Jack Lew. He was a former hedge fund manager who worked for Citigroup. In 2008 Citigroup paid him over $900,000. Think about that! The whole political theater of the Presidential campaign was a supposed us versus them battle of the little people versus the rich hedge fund manager Mitt Romney, when Obama himself has Wall Street people running him. I have never heard the name Jack Lew mentioned on TV even though he is one of the most powerful people in Washington right now.

Anyway, I digress. What I want to talk to you about is time. We react to price. When the market goes down we get uneasy and when it is up like it was last week we get excited about our positions. But by reacting to the action of the moment we miss out on the big picture and the phenomena of time. You see the big trends develop over months sometimes even years and it is in understanding those trends that money is made.

In fact when you are in a market that goes down fast and then up fast and gyrates wildly you are in a dangerous market, because that is the type



of action that happens in a bear market. In bull markets you want to see sharp corrections and then moves back up that take weeks and sometimes months to occur. As a rule of thumb markets fall faster than they go up so when they go up as fast as they drop you are usually seeing bear market action or a temporary move.

Now I don't think we are in a bear market. However, the US stock market has been in a correction since September. Finally recently it appears to have turned the corner and put in a potential bottom. Even though there was weakness in November the US market averages actually finished the month fractionally in the green.

The stock market actually has gone up a lot in the past two weeks. When I think about time though I think it will likely pause or pullback within the next two weeks then rally into the end of year.

There really isn't an indicator for time. The closest thing we have to such an indicator is using Bollinger bands and waiting for them to come together to signal that a consolidation phase is over. For instance I use the 200-day Bollinger Bands like this to look for the end of long-term stage one basing phases.

Time is more something though that you have to get a feel for after getting a lot of experience looking at charts, something that in itself takes time. So anyway right now the stock market has gone up so much in the past two weeks in a short amount of time that it is likely to pause or dip in the first half of December before going up more.

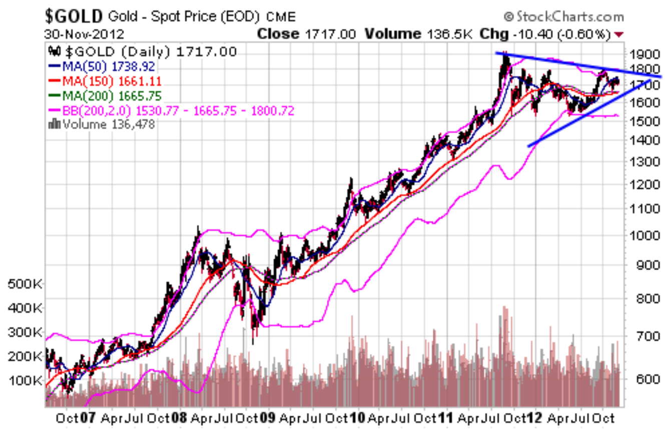
The problem is if the stock market doesn't pause here and just goes straight up to its highs nonstop it would put on the type of volatile action that you see in bear markets. So a dip or pause here for a week or two would actually be healthy here.

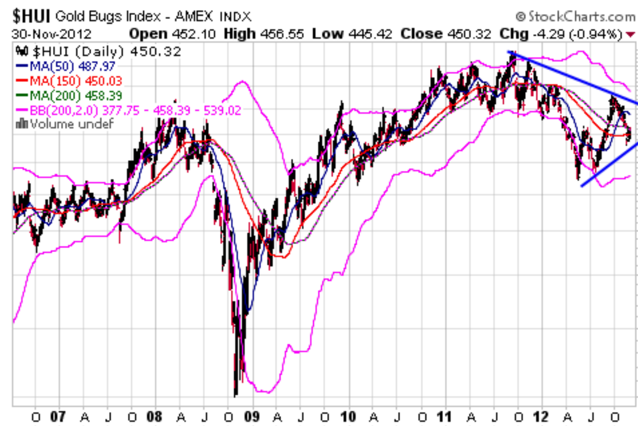
Let me put it to you this way—the longer the market pauses in December before going higher or the more it dips from here before going up more the longer it will actually continue to rally. My thinking is that the market is likely to rally into the end of the year and well into the Spring. But if it just goes straight up here without stopping then the rally would probably end in late January or February.

I'm invested enough in the market now that if I didn't buy anymore I would do just fine if it continues to go up. But I can buy more. If the market pauses or dips from here then I will probably buy a few more positions. I've talked about some potential buys in my most recent Power Investor PDF report from the other week.

Now as I've been saying for the past several months the European markets are the best looking markets in the world. While the US market averages are still off their highs, several of the European markets are in the process of breaking out of their September highs right now. I expect these markets to continue to outperform and do fantastic in 2013.

EWO has broken out above its September highs while EWK is right on its high and EWP and EWI are not far away from theirs. Right now the ETF that I think is in the most interesting position is IRL, which tracks Ireland, because it is on the verge of breaking out of a three year long stage one base. I believe that Ireland will be one of the top performing markets in the world next year. Yes I own all of these ETF's and I think all of them will do much better than the US stock market averages next year. I consider these positions to be core holdings in my portfolio for the next few years.





The only way you can really factor time into your investment decisions is to look at long-term charts and try to make decisions based off of them instead of reacting to the daily stock market gyration. If you look at a long-term chart of gold it is obvious that it is in a secular bull market and has consolidated for over a year within this bull market. Once gold breaks through its recent high it will go through this one year consolidation resistance point and rally up to its highs of 2011. Gold stocks are still lagging the metal overall, but I expect them to do fine too in the long-run and make a nice move up to their 2011 highs too over the course of the next six months or so.

One ETF I don't own right now that also looks interesting is JJC—the copper ETF. Gold tends to lead the action in the precious metals complex and as a gold move matures the other metals eventually catch up. So if I'm right about gold copper too will end up going to its 2011 highs next year, and hasn't really started to move yet.

I think its wise to have a position in metals and mining stocks, but you should be diversified and not simply only in mining shares. I really think it is prudent to have an investment position in European ETF's and even individual European stocks if you have enough money to spread out beyond ETF's. This should be a fun time in December. I expect the market to end December higher than where it starts the month.

BTW— I have been talking to Dave Skarica and we are considering doing an investment conference for our subscribers in the second week of February(2/10-2/12) in Nassau, Bahamas. We did one about three years ago there and it was awesome fun. I will let you know more as plans firm up.

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