



Stock Market Barometer

December 1, 2010 issue of WallStreetWindow Monthly.



Quote of the month:

“A paradox of the debt crisis is that the 16-nation euro zone, as a whole has a budget deficit of around 6% of GDP and total public debts of around 84% of GFP. While not exactly low...that is healthier than the US, which is running a budget deficit of over 11% and has total debts of around 92% GDP” - WSJ

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At the time the Federal Reserve was days away from announcing its QE money pump. Most of the speakers at the conference I talked to and people attending were expecting the market to correct after that announcement for several weeks to provide a buying opportunity. That is what I thought too and in fact the whole talk I gave was about buying commodity stocks on just such a correction.

The correction eventually came, but first the market went up for several days after that QE announcement, which sparked a lot of panic covering by premature short sellers and people that simply convinced themselves that the market would now go up forever due to money printing and were so scared of missing out that they bought into a top - knowing that the stocks were overextended.

Now the market is pulling back and all of the news is about the possibility - really the likelihood - of debt problems spreading from Greece and Ireland to Portugal, Spain, Belgium, and Italy. It's a mess, but it's been known to be a problem now all year long. Sometimes people ignore it and focus on reasons to be bullish like Fed money printing and then at other times it seems to be all they think about.

One member of our site noted that "One of the things I've noticed over the years is that the market

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will create its own narrative. It will move in a certain direction. Some intermarket ratio will change. People will scratch their heads. Then... the news will come out to justify what is happening. The reason is rather obvious, of course -- journalists need readers; therefore, journalists won't write things that people don't want to read. People don't want to read about the Euro sovereign debt bomb when the market is going up. People don't want to read about the wonders of QE2 when the market is going down."

It isn't just that editors and journalists are trying to give their readers what they want, but that they just like everyone else search for explanations for the moves in the market. So when the market goes up they tend to focus on the positive news and when it goes down they magnify the negative. It isn't so much that news stories drive market action, but most often it is the opposite.

If you don't believe this, consider this. When the market is in a strong uptrend it tends to ignore bad news and continues to go higher, but when it is falling it often sells the news no matter how good it is.

That means that the key to understanding how the market moves is to understand and focus on price action and that means understanding how market trends evolve. Most people don't do that. Instead they watch CNBC and focus on news stories and watch the market gyrate all over the place and get confused.

On 11/19/10 I announced in a Power Investor Alert that I was going to cash and dropping all of my stock recommendations, because I thought the market was going to begin a deeper correction.

The big warning sign was that investor sentiment had become dangerously bullish on the market. The Investors Intelligence Survey showed that over 56% of the people were now bullish on the stock market. This is historically a danger level for the market and the last few times the level of bulls was this high was in April and January of 2010 right before the market began a correction that lasted for several weeks.

What is more the VIX and put/call ratios were acting in a way that made me think that the market was going to decline more. And not only that but the AAIH sentiment survey of individual investors hit a three year high for bulls.

Even USA Today had a story in its paper yesterday announcing that after two years of doing nothing individual investors are getting back into the stock market. Flows of money from individual investors into stock funds has been positive the past four weeks after 23 weeks of outflows.

USA Today interviewed 51-year old Karthik Krishnan who happily boasted that "you can't be afraid, I'm back in the market."

Mr. Krishnan stopped buying stocks in 2008 and has sat on the sidelines until he put down \$20,000 to

buy 1,000 shares of Cisco system on November 11.

Krishnan is now buying because now he is convinced that "in the next three or four years, the Dow will be above 15,000."

November 11th was two days after the most recent peak in the stock market. Individual investors tend to buy at tops and sell on bottoms so when everyone gets bullish in the sentiment surveys it becomes time to get cautious on the market and be wary of a correction.

It isn't just individual investors who tend to get too bullish or bearish either though. The professionals and money managers do the same thing. When the stock market first goes up in a rally or bull market almost everyone is skeptical and they don't put their money into the market. Then as the market goes higher more people invest in it and once they invest in it they convince themselves that the market is bullish. When polled they'll happily declare themselves to be bulls and if you talk to them they'll give you reasons they believe the market is going to up forever.

The problem is that when everyone gets bullish it means that just about everyone that can be in the market is in the market and that means there isn't much money left to drive it higher anymore. A top comes as a result.

Then you get a correction and just as a rally is fueled by buying corrections are fueled by selling.

That's why bottoms usually come in panic selling and bearish talk and news on TV. When all the sellers are done selling the market then has nowhere to go but up.

To make money in the market you don't buy and sell when the crowd does, but buy after a correction runs its course. You buy when the masses panic and buy stocks on discount.



All year long we have seen the market trade in a wide trading range. Early in November it reached the top of that trading range. Even if the market were to go substantially higher over the next few months you still would expect the market to pause or correct off of this year long resistance level first and work off the overbought condition it got itself into for several weeks.

For the past week I've been looking at the 1170 level on the S&P 500 as support. Yesterday the market tapped on that level once again and this morning is gapping up above it. It is possible that the market will bounce off of it and get back above 1200. If it does though I'd be very wary of such a rally and worry that it would lead to a big-

ger topping formation - which would mean an even bigger correction later.

The best thing the market could do is to break the 1170 level. That would make the correction pick up steam and flush out the weak hands by bringing a panic bottom - which would lead to a stronger and much more long lasting rally.

That means the thing to do for the short-term is to remain cautious on the market and to use this time to identify the stocks that you might like to buy once the correction is over. I still believe commodity related stocks are going to be among the best places to be going forward.

There is a lot of debate now on where things are going. Is the economy going to pick up steam? Some have hope now, because Obama is talking about extending the Bush tax cuts. However, a real recovery is not likely to start until real estate prices put in a final bottom, which is unlikely to happen for at least another six months.

The most pessimistic see deflation, but it is hard to believe in deflation when the Federal Reserve just announced its QE money printing program. Some see that program and think it means an eventual collapse of the dollar and hyperinflation.

There is a big debate going on between the inflations and deflationists. I stand in the middle in the camp of stagflation - which sees

inflation going forward coupled with weak economic growth.

If you want to examine these issues in great detail I suggest getting the book *The Postcatastrophe Economy* by Eric Janszen. A few years ago in the summer of 2008 I pointed to the book *Financial Armageddon* as a guide to what was come. That book predicted the banking collapse before it happened.

I see the Janszen book as a similar must read book to provide you with a map for the future. In it he explains what causes the economic collapse and lays out in a logical manner where he thinks things are headed.

Published about six months ago, Janszen talks about 2011 as a time in which the recession will return and cause the market to drop again or else the economy will just muddle around thanks to money printing into the 2012 US Presidential election. In this scenario he sees oil and commodity prices exploding higher again to cause another recession in 2013.

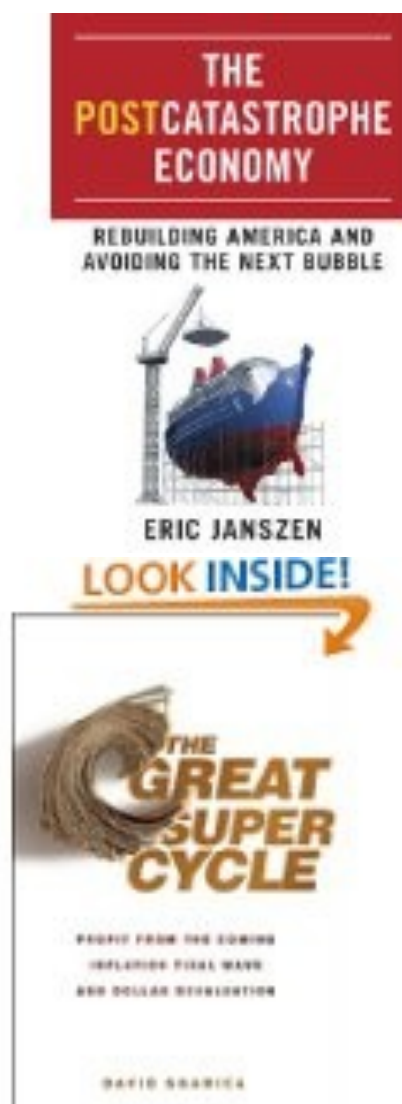
It is hard to be that specific, but the basic theory I think is sound. If the market breaks out of this year's big trading range resistance level for another bull run in 2011 then we can expect inflation to pick up steam to create a new set of problems by the end of next year. What we are seeing now just seems to be a temporary correction.

I really see *The Postcatastrophe Economy* book as the number one current events/forecasting type in-

vestment book to read. If you combine it with my friend Dave Skarica's new book *The Great Super-cycle*, which also talks about inflation, you can't go wrong if you are looking for some thought provoking reads on the economy and stock market.

And if you haven't done so yet - buy my book *Strategic Stock Trading*. Hey, if I'm going to recommend some other people's books I can't help but recommend mine too. A lot of people liked it.

This is going to be an interesting few weeks that should bring a nice move up before the end of the year.



Stock Market Overview by Kevin Amos and Andy Emerson

Before getting into the stocks and sectors that are leaders we are first going to take a look at the short-term out look on the markets. Below is a chart of the SP -500. As we stand now it appears that the markets stand a greater chance of breaking their fifty day moving averages. Below is a chart of the SP-500 breaking the 50 day moving average with our projections of what could unfold afterwards in red. The longer-term picture has turned more



bullish for the market in the past couple months but now the market is extremely over bought and the sentiment has turn really bullish. It appears that the averages have topped for now and that the next

real buy point will at the long term averages. This will allow the market to work off the overbought situation as well. In the meantime it would be great to see the general public along side the professionals turn bearish on the market as it works off the past couple of months run. Put those together in the weeks to come and a really good buying opportunity could be around the corner.

Below is a long term chart of the SP-500 and what it might look like going forward.

In past bull markets it was the pull backs to the long-term moving averages that brought the best buy points. Plus it gives us a great chance to see the relative strength issues to identify the stocks that will do the best on the next big rally.



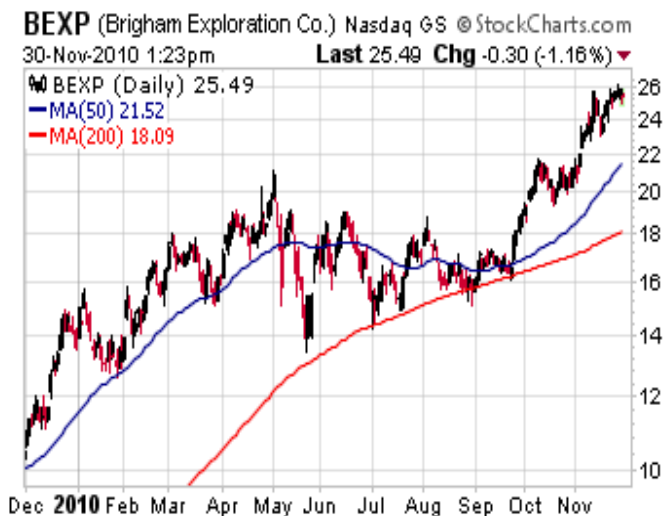
Sectors & Stocks

Below are some of the best performing stocks listed by the sector they are in. These stocks should be bought on pullbacks with stops placed below their 50-day moving average for a trader's entry or 200 day average for investment entries.

Auto Parts

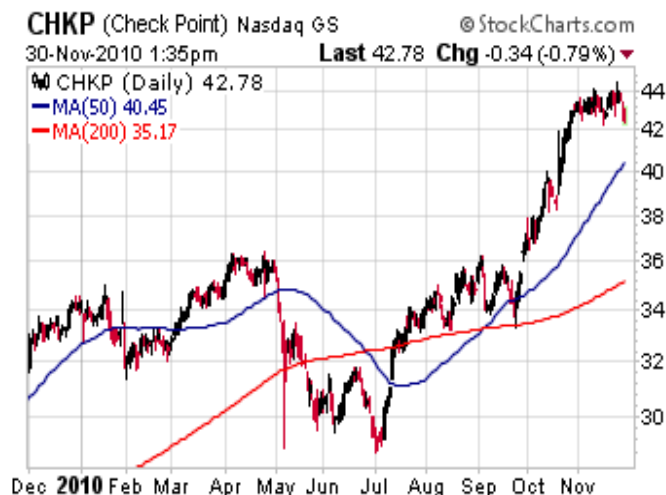


Oil





Software



Internet

CVLT (CommVault Systems) Nasdaq GM © StockCharts.com

30-Nov-2010 1:39pm Last 29.34 Chg -0.14 (-0.47%) ▼



Dec 2010 Feb Mar Apr May Jun Jul Aug Sep Oct Nov

TQNT (TriQuint Semi) Nasdaq GS © StockCharts.com

30-Nov-2010 1:51pm Last 11.96 Chg -0.08 (-0.66%) ▼



Dec 2010 Feb Mar Apr May Jun Jul Aug Sep Oct Nov

BMC (BMC Software Inc.) Nasdaq GS © StockCharts.com

30-Nov-2010 1:42pm Last 44.19 Chg -0.17 (-0.38%) ▼



Dec 2010 Feb Mar Apr May Jun Jul Aug Sep Oct Nov

TDC (Teradata Corp.) NYSE © StockCharts.com

30-Nov-2010 1:54pm Last 40.92 Chg -0.22 (-0.53%) ▼



Dec 2010 Feb Mar Apr May Jun Jul Aug Sep Oct Nov

OPNT (OPNET Tech) Nasdaq GS © StockCharts.com

30-Nov-2010 1:46pm Last 24.10 Chg -0.19 (-0.78%) ▼



Dec 2010 Feb Mar Apr May Jun Jul Aug Sep Oct Nov

DDIC (DDi Corp.) Nasdaq GM © StockCharts.com

30-Nov-2010 1:55pm Last 10.67 Chg -0.08 (-0.74%) ▼



Dec 2010 Feb Mar Apr May Jun Jul Aug Sep Oct Nov

Gold



Silver

Interesting stage one stocks



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