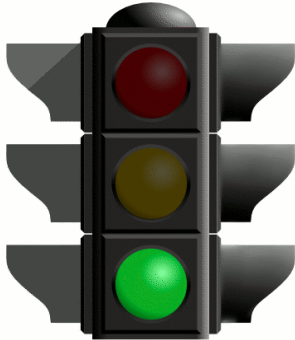




Stock Market Barometer

The Most Influential Financial Newsletter Read By Over 500 Hedge Fund Managers and Thousands of Elite Investors ~ Feb 2, 2011



Quote of the month:

“Three U.S. senators who want to give the president emergency powers over the Internet are protesting comparisons with the "kill switch" highlighted by Egypt's Net disconnection.”

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Elites Ignore Turmoil Celebrate at Davos –Mike Swanson

While the people of Egypt are rising up to kick out their dictator, world elites have been holding a party across the Mediterranean and it is one for which you have not been invited.

This of course is the annual meeting in Davos Switzerland attended by global financial elites and political figures. It is a time of relaxation and deal making for them. Two years ago though, right after the 2008 financial crisis, the CEO's of Bank of America, Citigroup, and Morgan Stanley didn't go to the forum out of fear and shame. The meeting then had a sense of gloom to it and pessimism as bankers worried that governments may take actions against them in the wake of the financial crisis. There was a sense that things would never be the same again.

But now, according to the Wall Street Journal, at this year's Davos meeting even though debt problems are spreading through Europe, instability in the Middle East grows, and there is talk of problems in the mu-

nicipal bond markets in the United States, there is a spirit of celebration at Davos.

“That means banks will be spending on parties. JPMorgan upgraded its cocktail reception to the Kirchner Museum from last year's event at the Tonic Piano Bar at Hotel Europe Davos. Bank of America's Moynihan and the firm's other top executives will meet clients for drinks on Jan. 27 at the Steigenberger Grandhotel Belvedere -- the same night Morgan Stanley's Mack is hosting a private dinner at restaurant Gasthaus in den Islen. Standard Chartered Plc and Deutsche Bank AG are both hosting events at the Belvedere the following night,” the Journal reports.

Timothy Geithner even arrived in Davos in a mood of triumph. This is the first time in a decade that a sitting US Treasury Secretary attended the meeting, but Geithner wanted to bask in glory.

It is victory that has brought a mood of celebration to Davos. The after-

math of the 2008 financial meltdown created true fears in Davos. In the 1930's after the 1929 stock market crash and Great Depression once Franklin Roosevelt got in office he promised to smash the power of central banks and did it. He removed the head of the Federal Reserve and replaced him with his own man. Congress created new regulations that we live with today, such as the Security and Exchange Commission Act, but even more importantly huge changes took place behind the scenes.

From about 1890 to 1930 the bank of JP Morgan practically ruled over the United States when it came to financial matters. In the 1920's a JP Morgan agent acted as head of the Federal Reserve and the bank had a man sitting on the board of each of the 100 largest corporations in the United States. The crash and depression discredited the bank and in just a few short years all of the JP Morgan men that were on the boards of large companies were asked to leave.

By the end of World War II behind the scenes bankers no longer could be considered "power elites", to use the phrase of sociologist C. Wright Mills, in the United States. Instead power shifted to monopolist manufactures in the auto industry and in military production. Think GM, Rockwell International, and General Dynamic. By the end of the 1950's President Eisenhower spoke of a "military-industrial complex" that had behind the scenes power like never before. In 1959 the US government gave more money to military contractors than the total sum of the profits of all US corporations and today accounts for almost a full 50% of the US Federal budget. Think of the

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"military-industrial complex" as an iron triangle of military production companies, Congressional committees and politicians that decide which of them gets money, and think tanks and an intelligence community that provides the thoughts and ideology that guides the community. And it still exists today.

This was all a behind the scenes power earthquake written about in only a few history books that started in 1930 and lasted for 20 years. Bankers didn't really get important again until the 1980's as the deficit grew and stock market went up as globalism became a catch phrase. So the international bankers of today did not know what may come to them after the 2008 stock market crash.

But now they rest easily, because the opposite happened to them than what happened to their cohorts in the 1930's. When Obama came in office he had a moment in which he could have reformed the international banking system or done something. People were crying out for leadership at the time. But instead he assured people that the banking interests would not be threatened through continuity. He kept Geithner and Bernanke in and pledged to take no dramatic steps.

He probably always was a Wall Street man. It probably is no coincidence that Wall Street banks were among his top campaign contributors that funded not only his race for President but his entire career going back to his first run for the Senate. Goldman Sachs was his biggest campaign contributor in 2008.

So it is no surprise when Rahn Emanuel, his Chief of Staff, resigned to try to start a run for Mayor of Chicago, Obama replaced him with William Daley, who served as a senior executive at J.P. Morgan and Chase. During the Clinton administration he served as Commerce Secretary after the

death of Ron Brown and helped get NAFTA passed through Congress. He is a Wall Street guy if there ever was one and is now Obama's right hand man. Or is it the other way around? The Dick Cheney the press doesn't even speak about?

Either way, it may be argued in fact that the bankers at Davos are now more politically powerful than they ever were before. They used their political strings to transfer their debts to the back of governments and taxpayers across the world and made governments now totally dependent upon them.

The masses watch the TV news and get fixated on hype, doom, and gloom, all designed to make them scared, obedient, and to keep them tuned in for more, while the powerful plan ahead for the future.

We can't go to Davos and find out what is being talked about behind closed doors. We can't find out for ourselves where the international financial elites are planning on moving their money next to make even more money, but we can get a general idea by reading press stories that cover Davos.

The title of this year's Davos event is "Shared Norms for the New Reality," reflecting a desire for the world's major powers to share a common consensus in today's day and age. Klaus Schwab, gave the event's opening remarks by saying, "let's take again the emergence of China, the emergence of India, represented here as never before. Let's take the consequences of social media, how they impact even on politics. Let's take the need for creating a situation where we deleverage again in our world," he said. "Let's take the whole notion of employment and unemployment particularly. All those are the issues and features of the new reality."

"What is really happening is a slow-down of the western world and the growth of the emerging markets. This is a complete shift in the balance of power," Azim Premji, chairman of Indian software major Wipro, told the opening panel.

Martin Sorrell, Chief Executive of WPP, the world's second-biggest advertising group, told the panel: "This is not just a shift from West to East but also from West to South."

So the story of Davos is world elites are now looking for more investment opportunities in the fastest growing markets of the world - the emerging markets and BRIC countries.

Are you?

Most US investors are simply stuck in traditional investments such as mutual funds that are run by managers trying to mimic the return of the S&P 500.

A few more sophisticated ones may diversify by investing in energy.

This has been fine for the past two years, because the stock market has gone up a lot since the 2009 bottom. But last year emerging markets and asset classes closely tied to their growth such as commodities went up much more than the US stock market did. Gold in particular shined.

This year though the US stock market has performed better than emerging markets as the hottest markets of last year pulled back in profit taking. Now I'm sure many US investors are probably even scared to invest overseas, because of the events in Egypt.

But over the next twenty years the fastest growing economies will indeed be by the so-called BRIC countries of Brazil, Russia, India, and China and

the nations surrounding them. Twenty years from now all of those markets will probably outperform the US stock market.

And over the next few years expect commodities and gold to continue to beat the broad US markets averages as deficit spending and Fed money printing spills over into inflation.

Investors must look beyond mutual funds in this day and age and be broad minded and think more like the Davos elites. They have to look into the future and not just be prisoners of the present. Yes it's nice that the US stock market gone up the past two years, but going forward if you want to make a lot of money you'll have to do more work than the average person who just puts their money in a mutual fund.

You'll have to invest in the fastest growing countries and in hot sectors like commodities and gold. The days of just putting money in something and sitting on it are gone, because global trends change. If the last decade has proven anything to you it is that.

A lot of people have gotten skeptical of gold the past few weeks because it has been in a corrective mode since December while the rest of the stock market has gone up, but I see this as a mere pause in its secular bull market.

That correction has most likely run its course and I plan on putting out some individual gold stocks in the Power Investor trading service over the next few days and weeks.

As for the rest of the market people are extremely bullish right now and I'm getting daily emails from people asking for stock picks. I started

this year signing up several hundred new people to the Power Investor service and my plan was to wait for a pullback to give people some good low risk high reward entry points in stocks.

That pullback has not yet happened. Until it does I think if you want to take investment positions you still should wait for a correction before buying into the market heavily. In the meantime if you want to be aggressive you can focus on short-term swing trades in momentum stocks, but to do so you must acknowledge at some point the market will indeed pullback. Therefore you have to be willing to use stop loss orders to protect yourself and be happy to swing for short-term profits.

Yesterday the S&P 500 managed to close above 1300 after falling off of this level on high volume on Friday. It is not clear to me yet whether it will be able to continue to rally off of that level or if all we saw yesterday was a fake breakout. If it is the latter the market will quickly turn down within the next few trading sessions.

If that happens and the S&P 500 breaks its new support at 1270 then a wider correction down to the 1170-1200 level will be likely. However, if the market does indeed hold above 1300 here and is able to start another rally above it then the market can rally for several more weeks, perhaps even a few months. In that case I'll start to put out some short-term trading ideas, but even then at this point the best places to focus on are gold and commodity related stocks that have already corrected and are therefore in a better position to rally further from here. If the market continues to rally money will likely shift into them to make those stocks play some catch up.

Questions to Mike

How Do You Find the Strong Sectors?

"You said in the book to invest in the best stocks that are in the best sectors. However, I am not really understanding how do you define the "best" sector. For instance, the best sector today may be considered autos or energy. However, when you look at their charts they are several months past their consolidations after a bear market. Is this still regarded as the "best" sector for the investor to watch. Do investors invest on pullbacks to the MA support lines? Or, is the "best" sector one of those sectors that have yet to break out from their consolidation in what has been an upward trending market? If so, is the "best" sector simply the one that is breaking out on high volume, rising RSI and a constricted Bollinger Band" formation?- Chris

I use TC2000 to gauge what sectors are performing the best when compared to the rest of the market. It allows me to rank the various sectors in the market by percentage return within a given time frame. If you don't have access to that you can get a similar sector ranking in the newspaper Investors Business Daily every day.

Now how do you use and interpret that is your real question. That is a matter of entry point. What I have found is that when the stock market pulls back the sectors that hold up the best tend to then lead the next rally. The longer this happens the better, but it doesn't require a long drawn out bear market, but could simply be a pullback that lasts for a few weeks. For example last year in January the stock market pulled back into February. There were several sectors that held up well such as REIT's, regional banks, and emerging market stocks, during that correction that then went up a lot when the market rallied from February to April and the emerging markets well beyond that. I bought a

few of the stocks in those sectors and got a nice gain in them. At the time I had put something like a top ten list of such stocks together for people.

Waiting for a pullback allows you to identify these sectors and also get in a safe entry point. Even in bull markets you normally get a pullback like this about twice a year. And yes they usually coincide with the stock market falling back to its 150 or 200-day moving average.

The ones that do the best are the ones that hold up on a pullback and are actually basing and poised to breakout of a stage one base. Those are the type of things that can then go up for years. For example if you look at gold stocks in the first quarter of 2002 this is what happened to them. But for them to appear like that the market had pulled back for several months.

In markets like right now where there is no pullback when you rank the sectors and buy you are basically the chasing momentum. You have to be aware of this and realize that it makes it more risks and have to have more of a traders mentality. You have to be willing to take profits, cut losses, and not get mad if you sell out and something goes up more. You are late in the game and have to realize that.

Traders can play that game, but the typical investor has to have the patience to wait for pullbacks to not only get in safely but identify future leading stocks. Unfortunately very few people can do this and that is one reason few make money in the stock market in the long. The typical investor craves action and has no patience to wait or to hold winners.

Sectors & Stocks

So far 2011 has been a continuation of the upward trend set in motion in September of last year. Sectors such as Auto Parts, Oil & Gas Equipment Services, Internet Software & Services, Printed Circuit Boards, Semiconductors, Electronics, Industrial Metals & Mining and Energy just to mention a few, have lead the way. For the new year Semiconductors, Internet Software & Services, along with some new sectors Aerospace/Defense, Diversified Machinery, Oil & Gas Refining have been performing well. The Health Care, Medical and Drug related sector has shown a rotation or in flow of money to this particular sector with the Drug Delivery sector out performing all others with a 13.05 percent rise this month. The Specialized Semiconductor sector which again has continued to be strong was up 12.71 percent. Shown Below are charts of some of these and other sectors in stage two advances.



\$INSR (Insurance Index - Nasdaq) INDX © StockCharts.com

31-Jan-2011 10:54am Last 4126.38 Chg -0.61 (-0.01%) ▼

**\$CRX** (MS Commodity Related) INDX © StockCharts.com

31-Jan-2011 10:57am Last 991.29 Chg +12.17 (+1.24%) ▲

**\$HCX** (S&P Healthcare Index) INDX © StockCharts.com

31-Jan-2011 10:55am Last 366.07 Chg +0.37 (+0.10%) ▲

**\$XOI** (Oil Index - AMEX) INDX © StockCharts.com

31-Jan-2011 10:58am Last 1283.19 Chg +15.18 (+1.20%) ▲

**\$DDX** (Disk Drive Index - AMEX) INDX © StockCharts.com

31-Jan-2011 10:56am Last 129.40 Chg -0.84 (-0.64%) ▼

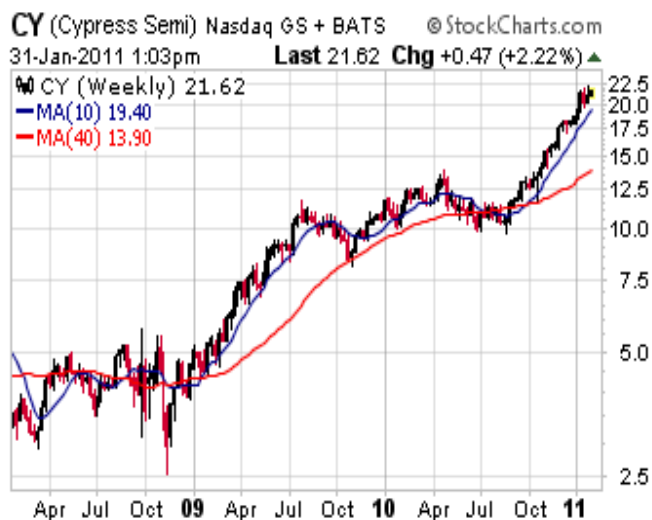
**\$HWI** (Computer Hardware) INDX © StockCharts.com

31-Jan-2011 11:01am Last 330.67 Chg -0.70 (-0.21%) ▼

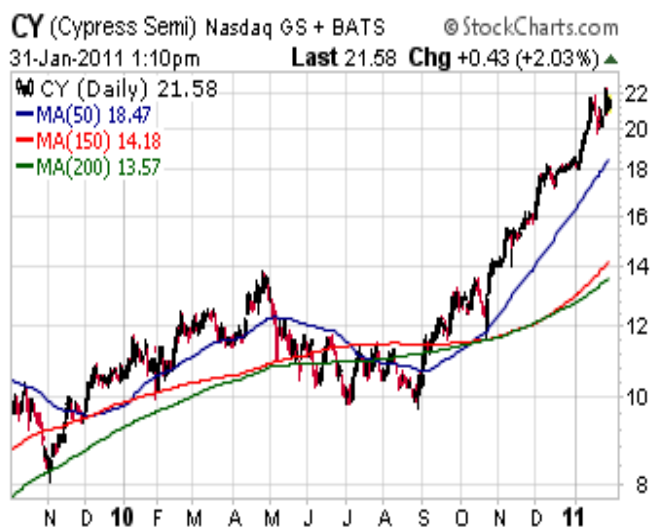


Stocks in Focus

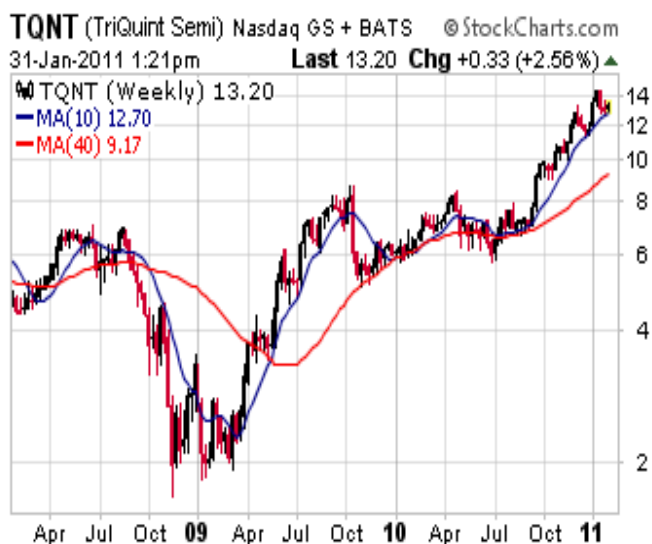
Now let's focus our attention on stocks and take a look at some that have been leaders in this market, are trading in a stage two advance and could be bought after a correction or pullback to support levels. Also when we go through a correction and if you see a particular stock consolidating, which is just trading sideways while we get a pullback in the market this means the stock is showing great relative strength, and is being accumulated by smart money and would make a potential good buy candidate. Cypress Semiconductor is an example of the type of stocks being shown here that is in a hot sector and has performed well.



The chart above is a weekly chart and you can see how this stock is in an upward trend. It broke out of at \$14.00 and is now trading at \$21.00. After a correction in the market, this is the type of stocks to take a look at for pullbacks to potentially buy.



The chart above is a daily chart, you can see the 50 day moving average at around the \$18.47 with support also there in that range. The stock could be bought in that area with a trading stop below 18 and an investor's stop below the longer term moving averages below 14. This is an example of what to look for and how to trade the stocks shown.



IDCC (InterDigital Inc.) Nasdaq GS + BATS © StockCharts.com31-Jan-2011 1:22pm **Last 48.71 Chg +1.42 (+3.00%) ▲****ARBA** (Ariba, Inc.) Nasdaq GM + BATS © StockCharts.com31-Jan-2011 1:26pm **Last 28.16 Chg +0.76 (+2.77%) ▲****OPNT** (OPNET Tech) Nasdaq GS + BATS © StockCharts.com31-Jan-2011 1:24pm **Last 28.51 Chg -0.81 (-2.76%) ▼****ARMH** Nasdaq GS + BATS © StockCharts.com31-Jan-2011 1:26pm **Last 24.92 Chg +0.14 (+0.56%) ▲****MHR** (Magnum Hunter) NYSE + BATS © StockCharts.com31-Jan-2011 1:25pm **Last 7.07 Chg +0.17 (+2.46%) ▲****TIBX** (TIBCO Soft...) Nasdaq GS + BATS © StockCharts.com31-Jan-2011 1:27pm **Last 21.95 Chg +0.39 (+1.81%) ▲**

ALTR (Altera Corp.) Nasdaq GM + BATS ©StockCharts.com
31-Jan-2011 1:28pm **Last 37.65 Chg +0.24 (+0.64%)▲**



VSEA (Varian Semi) Nasdaq GS + BATS ©StockCharts.com
31-Jan-2011 1:31pm **Last 44.93 Chg +1.72 (+3.98%)▲**



BKI (Buckeye Tech) NYSE + BATS ©StockCharts.com
31-Jan-2011 1:30pm **Last 25.25 Chg +0.39 (+1.55%)▲**



HP (Helmerich & Payne Inc.) NYSE + BATS ©StockCharts.com
31-Jan-2011 1:32pm **Last 58.55 Chg +2.18 (+3.87%)▲**



AGP (AMERIGROUP Corp.) NYSE + BATS ©StockCharts.com
31-Jan-2011 1:30pm **Last 52.63 Chg +1.18 (+2.29%)▲**



HS (HealthSpring Inc.) NYSE ©StockCharts.com
31-Jan-2011 1:32pm **Last 30.99 Chg +0.15 (+0.49%)▲**



TSM (Taiwan Semiconductor Mfg) NYSE © StockCharts.com
31-Jan-2011 1:33pm **Last 13.14 Chg +0.03 (+0.23%) ▲**



IEC (IEC Electronics Corp.) AMEX © StockCharts.com
31-Jan-2011 1:35pm **Last 8.59 Vol 31.5K Chg -0.14 (-1.60%) ▼**



EGOV (National...) Nasdaq GS + BATS © StockCharts.com
31-Jan-2011 1:34pm **Last 10.12 Chg +0.02 (+0.20%) ▲**



TRW (TRW Automotive) NYSE + BATS © StockCharts.com
31-Jan-2011 1:36pm **Last 59.95 Chg +0.06 (+0.10%) ▲**



TLM (Talisman Energy) NYSE + BATS © StockCharts.com
31-Jan-2011 1:34pm **Last 22.92 Chg +0.81 (+3.66%) ▲**



SYNT (Syntel, Inc.) Nasdaq GS + BATS © StockCharts.com
31-Jan-2011 1:36pm **Last 55.83 Chg +1.58 (+2.91%) ▲**



KS (KapStone Paper) NYSE + BATS

© StockCharts.com

31-Jan-2011 1:37pm **Last 17.40 Chg +0.10 (+0.58%) ▲****DMAN (DemandTec)** Nasdaq GM + BATS

© StockCharts.com

31-Jan-2011 1:38pm **Last 12.26 Chg +0.11 (+0.91%) ▲****NATI (National Instruments)** Nasdaq GS + BATS

© StockCharts.com

31-Jan-2011 1:38pm **Last 42.62 Chg +0.13 (+0.31%) ▲****MGA (Magna International)** NYSE + BATS

© StockCharts.com

31-Jan-2011 1:39pm **Last 58.47 Chg +0.67 (+1.16%) ▲****SWK (Stanley Black & Decker)** NYSE + BATS

© StockCharts.com

31-Jan-2011 1:59pm **Last 73.06 Chg +0.34 (+0.47%) ▲****EPM (Evolution Petrol)** AMEX + BATS

© StockCharts.com

31-Jan-2011 1:59pm **Last 7.32 Chg +0.27 (+3.83%) ▲**

FGP (Ferrelgas Partners) NYSE + BATS © StockCharts.com31-Jan-2011 1:40pm **Last 28.34 Chg -0.05 (-0.18%)** ▼**FDML (Federal-Mogul Corp.) Nasdaq GM** © StockCharts.com31-Jan-2011 1:41pm **Last 23.62 Chg +1.03 (+4.56%)** ▲**NVMI Nasdaq GM + BATS** © StockCharts.com31-Jan-2011 1:40pm **Last 9.23 Chg +0.02 (+0.22%)** ▲**GNTX (Gentex Corp.) Nasdaq GS + BATS** © StockCharts.com31-Jan-2011 1:58pm **Last 32.33 Chg +0.11 (+0.34%)** ▲**TPX (Tempur-Pedic Intl Inc.) NYSE + BATS** © StockCharts.com31-Jan-2011 2:00pm **Last 44.13 Chg +0.90 (+2.08%)** ▲**VAL (Valspar Corp.) NYSE + BATS** © StockCharts.com31-Jan-2011 2:01pm **Last 37.52 Chg +0.62 (+1.68%)** ▲



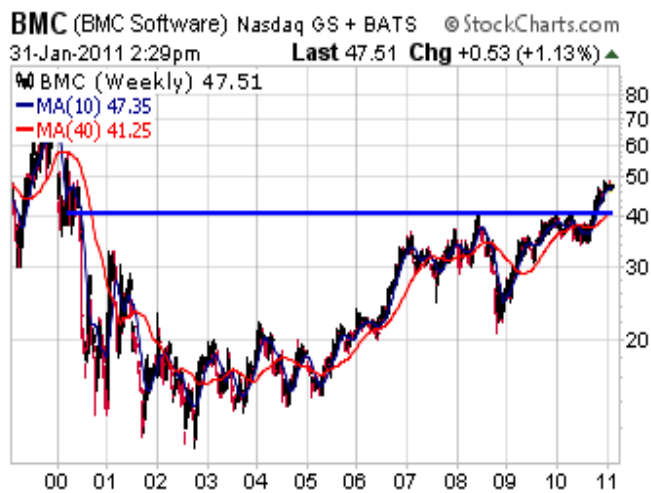
Xilinx Inc. is an example of a stock breaking out of a 6 year base. You can see on the weekly chart how this stock has broken out of resistance, making a new high going back to 04. This also is a semiconductor stock and is one to keep an eye on in a market pull-back.



The chart below shows how a pull-back towards \$30.00 would be near the breakout and the 50 day moving average, and is a stock worthy of watching during such of a correction.



Below is a list of stocks with similar patterns that have just broken out or are near a significant break out.



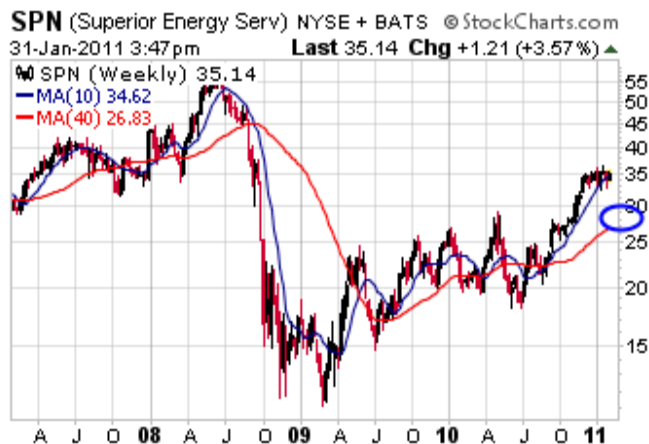
Wrapping up things we wanted to go over one of the sectors that we feel has a better chance of putting on larger percentage gains over the next couple of years. The oil sectors stands a good chance of being a huge winner and is now the huge breaking out of a huge base. Below are several oil related companies and the stocks that have the best looking long term charts.

At the moment most are overbought but a good pull back towards the old breakouts would be logical place to add to these positions.



We like DEP but rather see a buy on the pull back near the long term moving averages.





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