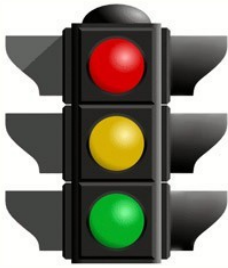




## Stock Market Barometer

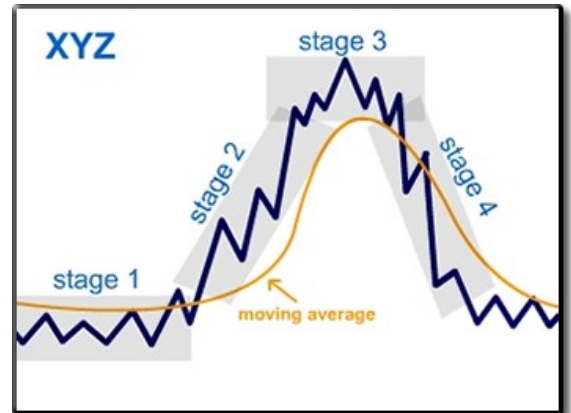


### Quote of the month:

“I simply do not know where the money is, or why the accounts have not been reconciled to date” - John Corzine

## Thoughts on Short-Term Trading versus Investing –Mike Swanson (02/01/12)

In January the US stock market averages had solid rallies while the rest of the world markets were mixed, with most of them falling in the first half of the month and then following the US markets up in the final two weeks of the month.



There is one big trend that has been in place since the summer and is still in place now - we are in a global bear market in which the US stock market averages are acting better than just about any other market in the world. This was a huge change from what had come from before starting towards the end of 2009 when China asserted market leadership. Then emerging markets did, especially those of Latin America such as Chile. Then Europe did well.

But then everything went into a giant funk. In the big picture most world markets started this year in deep stage four declines trading well off of their long-term 150 and 200 day moving averages while the US markets appeared to be in some sort of stage three topping process.

Going into this year I thought we'd see some top to the market rally that started in October and then the US markets would follow the rest of the world down into a global bear market bottom sometime this Spring.

I was actually hoping that this scenario would play out because then I'd be able to make a whole

# STRATEGIC STOCK TRADING

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71.25	71.25	71.25	71.25	71.25	71.25
54.63	54.63	54.63	54.63	54.63	54.63
51.88	51.88	51.88	51.88	51.88	51.88
785.32	785.32	785.32	785.32	785.32	785.32
84.36	84.36	84.36	84.36	84.36	84.36
83.32	83.32	83.32	83.32	83.32	83.32
84.58	84.58	84.58	84.58	84.58	84.58
85.61	85.61	85.61	85.61	85.61	85.61

**MICHAEL SWANSON**

bunch of long-term buy recommendations for you, but now I have to adjust my views. We saw a peak in the final days of January in fact come, but the problem is that it didn't come with the type of manic bullish sentiments you see at major market tops. That forces me to conclude that we are not on the verge of a big decline right now.

Now I do think we'll see one this year much like we saw in the Fall of last year or in the summer of 2010, but it probably won't happen now until late spring or in the summer - not until we see a manic top in sentiment.

Oh I think we're probably going to see a quick 3-5 day pullback at some point in February to make for a nice short-term buy point, but I don't think we'll see a major top now this month and probably not until April or May.

This Wednesday's Investors Intelligence survey showed that the number of newsletter writers bullish on the stock market is at 48%. This is a drop from last week when it was at 50% while the number of bears now stands at 29.8%, which is a percentage point rise from last week.

What this means is that over the past week people got a little bit more skeptical about the market rally. If the market was about to make a major top we'd see the opposite occur.

We just aren't at the wild sentiment readings you normally see at big tops in the stock market. And the same thing is visible in several other



sentiment surveys.

Yes the VIX is low, but it can go lower. It went into the low teens last year.

So I can't say that this rally is over and for now pullbacks in it should be used as short-term buying opportunities. I simply expect to see what we've seen the past six weeks continue for the next few months now - strength in US markets, lagging action everywhere else, and lagging gold and commodity issues.



The big problem though is that this has to be put in context with the big picture of the market. The Nasdaq 100 managed to make a new high on this rally, thanks to Apple's blowout earnings report in January, but the S&P 500 and DOW are still locked into a big trading range. Now they were in a similar trading range through 2010, which they broke out of early last year to make one big leg up for this bull market, but the situation is a little different now.

It does appear now we'll see the market averages test their highs of last year at some point this quarter and probably even go through them, but if that happens on low volume and with a wild level of bullish sentiment as we saw last year in the summer before the Fall correction then we'll have to be on guard for another big correction to occur and if it happens with bad news in Europe it will be a doozy. So in my view the US

market averages are going sideways in the long-term picture and likely to go up to the top of their range this quarter and then correct. After that correction we'll see a good intermediate-term buy point.

That brings me to this email I got from someone who joined the Power Investor Service at the first of the year (it's closed to new people):

I have completed and studied through the Mastery course first time and found it very insightful.

The course, in my opinion, takes holistic approach to trading stocks with great emphasis and focus on the big picture by incorporating four stage analysis, identifying strongly performing stock within sectors that are either at the start or already in Bull Market.

I plan to go through over it again to better understand the concepts and methods explained in it. It has equipped me quite sufficiently to think and act like a professional trader as I believe now. I'm ready to exercise my patience for the right time and of course with your guide and power stock picks, I hope to recoup my losses and learn to be on the path of success. Regardless of the time it takes to get me there, I believed I have developed the required trader's mindset and passion to be successful.

Based on the current market outlook, which in effect has neither topped nor declined as dictated by the charts as well as explained by your weekly reports - what may be the best way to participate in the market now ? In other words, following the methods taught in the course - employing MA 150 and 200 on major market averages - trend really cannot be determined or defined. I thought the best way is to stay away from the market and keep money safe until I get your ultimate opinion of buying or shorting by trading ETF that performs against the major market indexes. Is that the best way to put into practice of what I have learnt in this course? - Marsfred D

My view of the market has changed from where it was New Years when I was thinking we'd see a top in January and then a great long-term buy point sometime in the Spring, but my strategies and methodology that I use for my own investing hasn't. I like to buy at the end of stage one bases or start of stage 2 bull markets. I think it is best to buy stocks on pullbacks and not after the market has gone up for weeks already.

So my plan is to take some short positions once I think a major top is finally in, which I'm pushing off now probably past February when at the start of the year I thought it would happened sooner. Then I plan on buying after we get another big correction. I see the first six months of this year playing out in a similar fashion to what we saw in 20120 or 2011.

That is my plan, but it doesn't answer your real question - how to

make money now. That requires a more short-term outlook than what I do for my own investing and what I tend to talk about. I like to buy stocks with a six months plus time horizon and take short positions when I think there are major tops. I can't justify doing either one at the moment.

I wish I could, because I got a lot of new people to join the Power Investor Service like you at the start of the year and I'd like to give them some stock picks and I know if I don't some people are going to get angry and go elsewhere to someone who will give them to them.

I just can't do that with good conscience. Buying and trying to hold stuff here just doesn't make sense to me. This is really a traders market. Making money in it requires short-term 3-5 day swing trading or even riskier daytrading.

With swing trading you'd buy stocks making technical breakouts to new highs or out of bases and take profits quickly. This is essentially what Kevin Amos does and he goes over the trades he is doing in the Power Investor Section in his videos.

None of us at WallStreetWidnow though do any daytrading. For that I'd look elsewhere.

I started out doing daytrading and then went to swing trading and now consider myself more of an intermediate or long-term investor. I've been doing this now for ten years and as time has went on my focus has been more and more on the long-term.

There are a couple of reasons why. First when I started out I didn't have much money, only \$15,000 in fact, and had the mentality that I wanted to get rich quick. It was back in 1998 and 1999 and stocks went up like crazy. It was nothing to go through 1,000 stocks a night and pick out 10 that could go up 30% the next day. Every day there were Internet stocks that would double in a single trading session.

I know one person who had \$30,000 and turned it into a million in 1999.

That sort of stock action doesn't exist now. For the most part to double your money in a stock takes months and it takes getting in after a correction or pullback to do it.

But also as I made more money in the market I wanted to do less risky short-term trading and more longer-term trading and also do it with the goal of being able to collect long-term capital gains.

Then comes another big thing - after years of trading I really do not want to daytrade or do real short-term trading that forces me to be in front of the computer all of the time or sucks all of the emotional energy out of me. Being a success in the market should be used to make your life better and not as a purpose in itself. So it gives me the freedom to do other things, such as write or get involved in other businesses. So last

year when I thought the market had topped for the year I took the bulk of my money out of my brokerage account and used it to help construct a body shop in Asheville North Carolina. I am a partner in a chain of them. We have three and this Friday are buying a second one in Asheville. In fact right after I send this newsletter out I am going to ride down there to close on it. It's neat to be able to start or own businesses that employ a lot people and provide a service for people with no help from the government.

But I wouldn't be able to do this without having made a lot of money in the stock market and without having shifted from doing short-term trading to long-term positioning.

That said looking back I think most people who get into the stock market should start out doing some short-term trading even if they just do it with a small part of their account, because I think it is the best way to learn.

The problem is the vast majority of people who are in the stock market think of themselves as buy and hold investors and they don't manage their risk. Even worse if they invest and things go up they think it's an easy game or that they are some sort of market genius when truth is they are just lucky to be on the right trend. Then when that trend ends they get wiped out.

Same thing happened with the real estate market. But if someone starts out short-term trading first they get humbled by the market. If half your trades make money you are doing well. So even the best short-term traders have half of their trades turn into losers. They make money because they make more on their winning trades than their losing trades.

To get to that point they have to learn to trade and that means learning to manage risk, cut losses, and to be humble. I knew plenty of people in 2000 who had been in the stock market for over a decade and made money buying and holding in tech stocks. Most thought the market would just go up forever for them and very few of them were humble about it, because they thought they were special people to have been able to make that money and therefore they would just keep on doing it.

The stock market always brings people down to reality one way or the other. Problem is people always get excited by short-term rallies.

So I think in the end long-term investing and position is the best way to make money in the wrong run if you know what you are doing, but starting out in short-term trading might be the best way to learn how to do it. Of course everyone is different. This is my experience.

As for long-term stuff. I still think we'll get a long-term buy point in Greece this year and shipping stocks appear to be in nice stage one bases and may become good buys soon too.

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