



Stock Market Barometer

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Quote of the month:

“It is pretty clear that there is not much chance of finding any significant quantity of new cheap oil. Any new or conventional oil is going to be expensive—Lord Oxburgh, former chairman Shell Oil

Will 2012 Bring the End of the World As We Know It? Mike

Will 2012 Bring The End of the World as You Know It? - Mike Swanson

ply were unaware of.

The world is changing and suddenly it seems. In this past month we have seen waves of protests in Africa and the Middle East that toppled the governments of Tunisia and Egypt, created protests in Bahrain, and caused widespread violence in Libya as Gadaffi holed himself up in Tripoli. Last week oil prices went up substantially and the stock market went down.

Changes happen in front of us and seldom are we aware of them until one day you just wake up and notice that things are different. While the riots and revolutions in the Middle East and Africa have been dominating the news now there was one news story buried in the Business section of the British Guardian last month that is a pure bombshell.

The headline for this story is simple. “Saudi Arabia Cannot Pump Enough Oil to Keep a Lid on Prices” it reads. The story discusses Wikileaks reports from 2007 to 2009 by the head US diplomat to the Middle East in which he says Saudi Arabia has overstated its oil reserves by over 40%.

Like all trends may they be in the financial markets or world events people do not take notice of them until they hit front page news and start to have an effect on their lives. The stock market crash of 2008 was the culmination of a bear market that started in late 2007 and cracks in the mortgage market that appeared a full year before that. The events in the Middle East seem to be occurring suddenly, but I’m sure that there were many developments over the past few years that led up to them that we sim-

Sadad Al-Husseini, the former head of exploration for Saudi oil monopoly company Aramco met with the diplomat and told him that “Saudi Arabia might reach an output of 12m barrels a day in 10 years but before then - possibly as early as 2012 -

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MICHAEL SWANSON

global oil production would have hit its highest point."

The geologist argues that once global peak oil is reached Aramco will not be able to prevent oil prices from rising, because "he believes that what will result is a plateau in total output that will last approximately 15 years followed by decreasing output" in Saudi Arabia.

Shell Geologist King Hubbert came up with the notion of peak oil in 1956 when he predicted that US oil production would reach a peak by 1970. He turned out to be correct. According to the book *Crude World* by Peter Maas, "His forecast was based on the production trends of reservoirs he studied. He noticed a bell curve in which output rose until the reservoir was half empty, than output dropped as quickly (or slowly) as it had risen. At the halfway point, reservoirs continued to yield oil, but the amounts slipped year by year because the fields had lost what was, in essence, their geological vigor. Think of an oil field as a runner reaching top speed. Just as the runner cannot increase her pace beyond a certain point, and must slow down after reaching top speed, so does the output of an oil field reach its peak and then decline."

Over the past ten years the late Matt Simmons popularized the notion of global peak oil. As Maas explains, "Because most of the world "supergiant" fields were discovered more than three decades ago (some more than seven decades ago), Simmons noted, they were all losing vigor. Burgan, in Kuwait was declining; Cantarell in Mexico, was collapsing;

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Alaska's Prudhoe Bay was limping; Norway and Britain's mother lode in the North Sea was gasping. If you look at these depleting fields, it is no surprise that oil becomes triple-digit expensive when the global economy expands and requires greater amounts of petroleum."

Saudi Arabia is the world's largest oil producer with 21% of the world's oil reserves, so when it reaches peak oil around 2012 it will have a massive impact on global oil production. Ali al-Naimi, the Saudi government minister of oil, told Peter Maas that "new fields are found from time to time - for instance offshore near West Africa and in the Caspian basin - but he believed their output wouldn't be sufficient. With demand rising a few percentage points every year at times of economic expansion, and with the output of older and larger fields declining by a few percentage points annually, the industry needs to find vast amount of new oil to maintain equilibrium. That's like finding a whole new Saudi Arabia every couple of years."

Some peak oil theorists make out like peak oil means the end of the world in practical terms. They say that we won't be able to drive anymore and the world as we know it will collapse. I do not believe that at all and believe that it will take several decades for the implications and changes that peak oil brings to play out - but for most people it will be a process that they will not be aware of until they wake up one day and suddenly realize what happened.

Governments are well aware of this and this is one of the many reasons why the United States invaded Iraq

and Afghanistan. Investments are going on in alternative energy sources and I expect rising oil prices to contribute to greater inflation in the coming years - as if Fed money printing isn't enough - and rising prices overall for energy and alternative energy stocks. Along with emerging markets, gold, and commodities, the energy sector will be one of the most rewarding areas to invest in over the next decade.

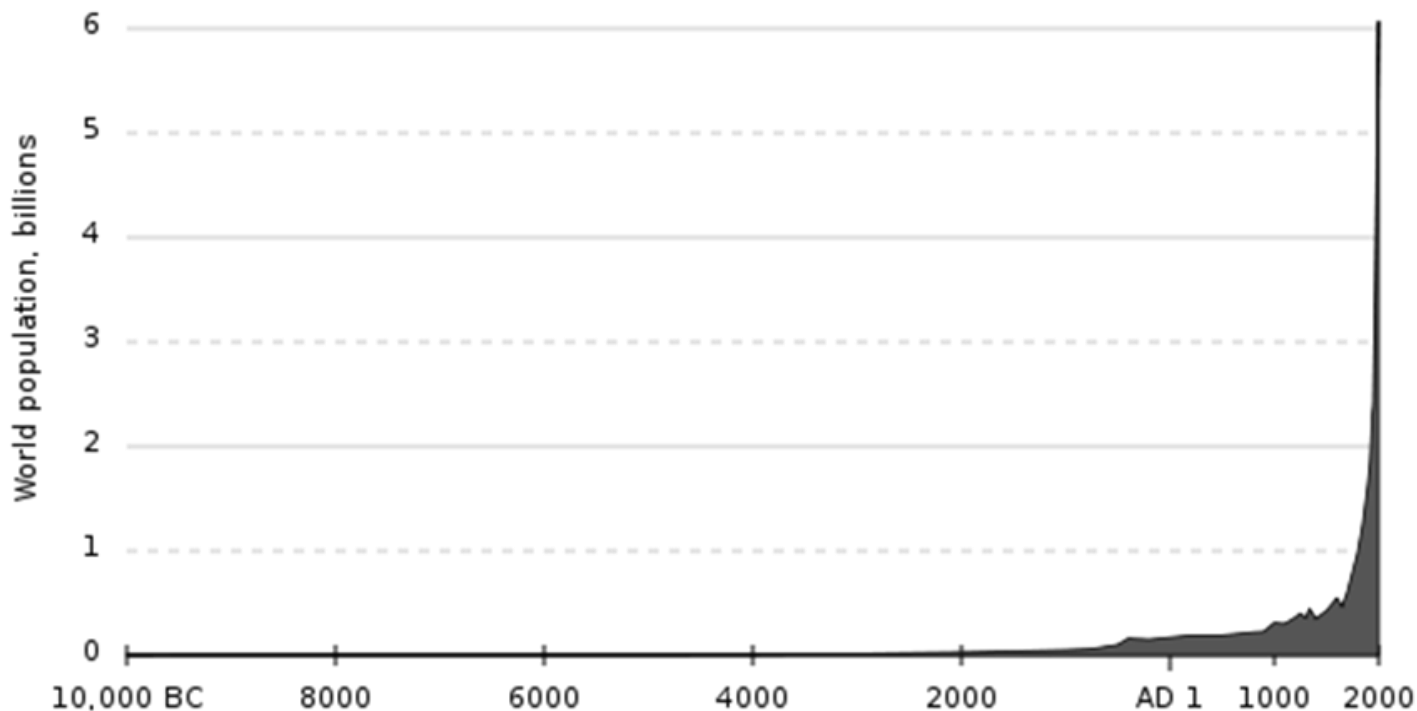
Biodiesel and electric cars will probably be more of a thing of the future than they are now. What most people don't realize is that oil is used in just about everything. Plastics are made from oil. Oil is used to make fertilizer.

That means that higher oil prices ultimately also translate into higher food prices. The United Nations studies population growth and projects that world population will actually peak out and stop growing somewhere between 2040 and 2060,

with the closer estimate coming as a result of peak oil. Experts who follow this believe food problems will be a major world issue by 2030.

For those that come after us and live through the second half of this century they will live in a much different world than the one we grew up in. Our lifetime has been dominated by the notion of limitless economic growth and a hugely expanding economy with massive population growth underpinning both. Experts estimate that the total number of people who ever lived on this planet to be around 106 billion. Almost all of these people were born after 1900. 75% of the people who had ever lived were alive in the 1970's and more people died in World War I and World War II than had ever been born before 1900.

This huge growth in world population is unprecedented in human history. If you go back to the begin-



ning of man there was a surge in population growth once man settled and started to grow food that lasted until the time of the birth of Jesus and then growth slowed dramatically and basically flattened out during the Middle Ages with an uptick during the Renaissance and then a huge explosion that started around 1750 and has accelerated through today.

Why do you think this boom happened? Most people when asked that will think it has to do with medicine, but modern medicine really didn't arrive on the scene until the turn of the 19th century. The real answer is energy. The harnessing coal and oil allowed for greater transportation of food and more importantly more efficient food production.

The boom in global population growth coincided with a boom in the production and use of energy. And that boom is likely to come to an end over the course of the next four decades. This doesn't mean that the world is going to end or that everyone is going to starve, but that the world trend of huge population growth that we take for granted as a part of our lives - which in reality is an anomaly in world history - will end. Things will be just different. That will mean a different way of life will close out this century. People will believe in things and think differently than you or I do. We are the last people of the 20th century.

Getting from here to there though will be messy at times. I was thinking we would see revolutions like the one in Egypt in many parts

of the world begin in a couple of decades as food prices become more of an issue, but it looks like it is already happening.

The revolts on TV really are not Middle East revolts. They started in Egypt and are also occurring in many countries in Africa and even in China and North Korea where the North Korean army killed five people in the city of Sinuiju after protests broke out there.

Islam has very little to do with it. During the Iranian revolution of the 1970's the US Embassy was put under siege, hostages taken, and the American flag burned. In Egypt and these other countries there have been no demonstrations outside American embassies nor have any American flags been burned.

What there has been is inflation in food prices to the tune of 20% in Egypt the past few months and comparable figures in many of these other countries. We saw this happen in 2008 for a few months with food riots occurring in over 40 countries. When people have very little income and food makes up 70% of it changes in food prices create unrest. The agriculture food price index rose by 32% in the second half of 2010.

Choose your reason may it be peak oil, Fed money printing, or simply growing demand, the charts of commodities have been rising sharply since last August and impacting the world. China is unable to meet the demand for all of the extra Treasury bonds so the Fed is now monetizing the US debt through "quantitative easing" and with no

signs of the trillion dollar deficits ending soon more hot money is going to flow into the system to keep pushing things higher.



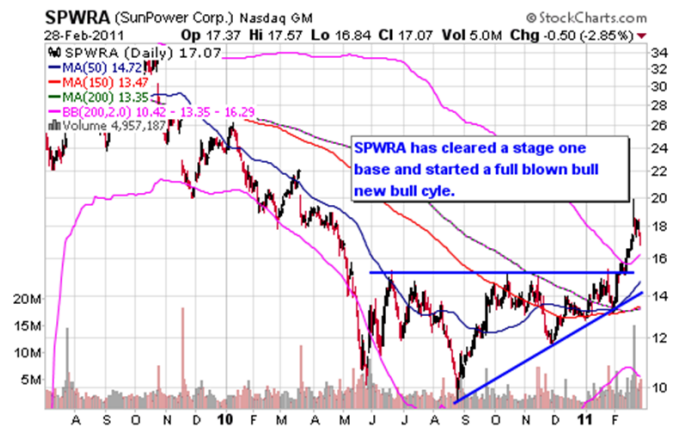
The cost of bailing out banks, running endless deficits to finance the military industrial complex, and pork barrel giveaway programs is inflation. For some in third world countries that means starvation type lives. For those in the US it will probably mean \$4.00 gasoline prices before the year is over.

We are in a cyclical bull market for stocks and commodities and a bear market in bonds. Eventually the bond bear market will mean higher interest rates on the part of the Fed. When that comes eventually the inflation trend will slow down for a time being and the stock market will probably go into some sort of bear market. But we are a long-time for the Fed raising rates. Fed fund futures don't see the Fed raising rates until the end of this year or early next year,

and historically it takes multiple rate hikes before they have an impact on the stock market.

This means that I believe that this cyclical bull market has more room run and I believe the areas to stay focused on will be energy and commodity related. A few weeks ago I recommend two solar energy stocks in the WSW Power Investor premium trading service and both have risen substantially since then. Right now the market is going through a short-term correction and I expect to make several more such recommendations once it fully runs its course.

One sector that has caught my attention is the alternative energy sector and solar stocks in particular. The other week we recommended several solar stocks in the WSW Power Investor service, including SunPower Corp (Nasdaq: SPWRA).



After my recommendation SPWRA cleared a stage one base and has now entered a full blown bull cycle. The stock is likely to pull back a bit or pause here to provide another entry point and then resume its upward march. The company itself has high earnings growth and its stock is priced cheaply. It

produces solar roof tiles, for commercial use and for government entities and energy companies. It is also a one billion dollar plus market cap company, but thanks to a low valuation and high analyst earnings growth projections sports a PEG ratio of 0.37.

I believe this is the best stock in the solar group. It also has a high short interest - with 28% of the float shorted as of January 14th.

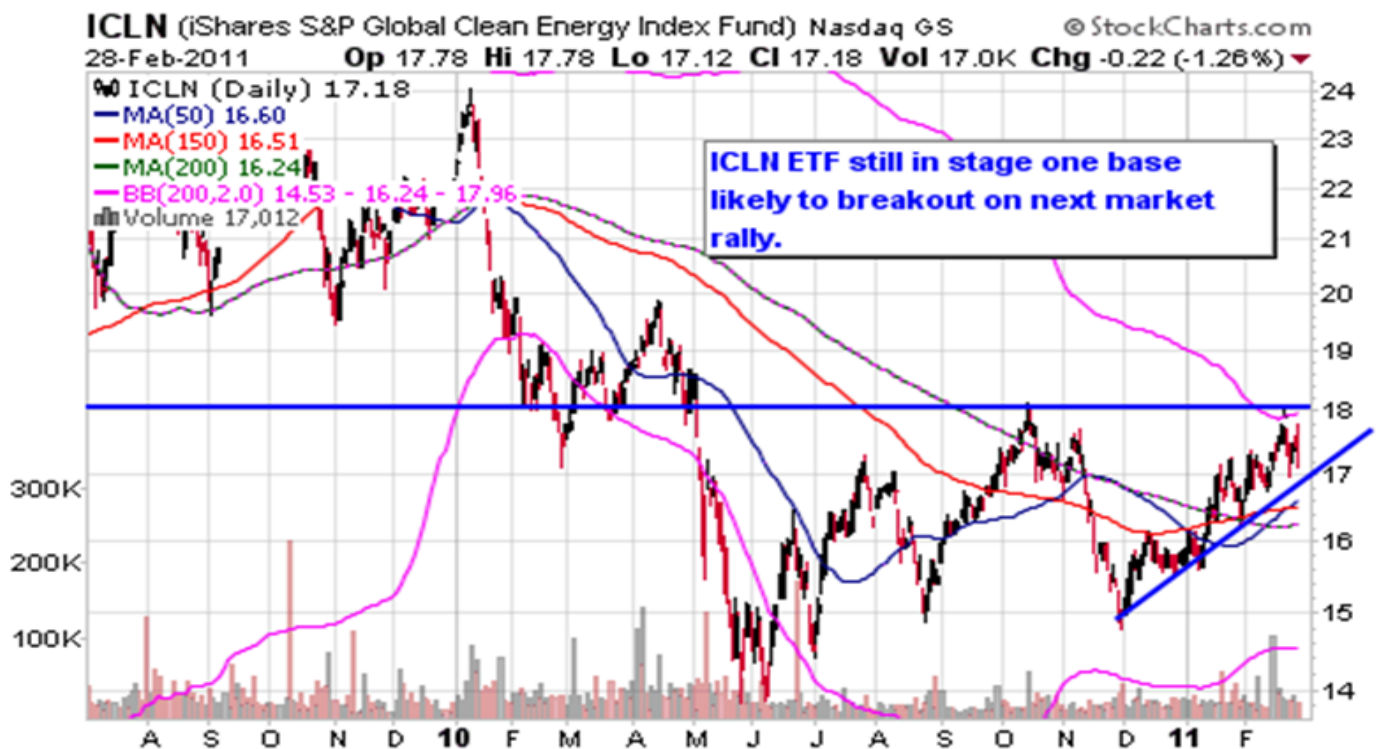
ICLN is an ETF that tracks the alternative energy sector. It is still in a stage one base with resistance at 18 and support at 17. I believe it is likely to breakout and begin a new bull market once the current market correction is over and is buyable with a stop below 17.

As for the rest of the market it appears to be in a corrective mode right now similar to what we saw

back in November. The market pulled back hard last week and has since bounced over the past few days, but I think that is very unlikely that it will just keep going up from here nonstop. Instead it is likely to repair the damage done on in the correction by going sideways or falling one more time. That means that I think we're going to have more buy points this month to accumulate stocks for another run higher in the market.

Right now the S&P 500 has support at 1290 the points of the low of last week and its 50-day moving average. I expect we'll see a retest of that low and if it is broken then a bottom in the 1280-1260 area.

I plan on making more recommendations in the Power Investor service over the course of this month as the current correction and consolidation phase works itself out.



Sectors & Stocks

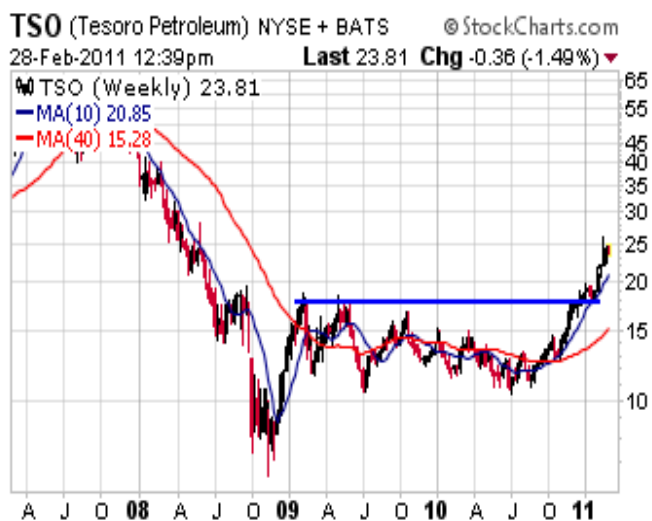
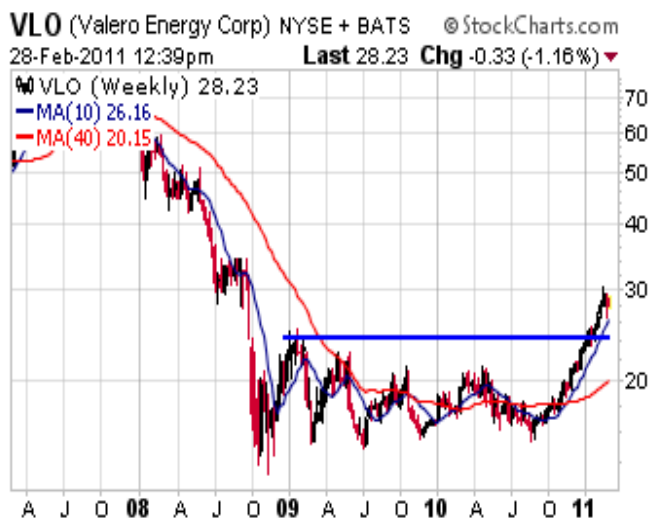
It's our belief that the energy sector has the best long-term chart patterns. On the following pages we have the chart patterns of the stocks that we feel in the best position to do really well over the next couple of years. Most have a horizontal trend line at breakout that completes the base and are now in a stage two advance.

It's also important to understand the technical part of these chart patterns. Do not chase stocks that are well above their breakout point.

At the moment the oil stocks are extended and it appears that many are starting to show signs of weakness. We feel that a nice pull back in the coming weeks would be a great place to start buying into the following stocks.

We also wanted to note that the energy sector is producing a large amount of new companies (IPO,s). In a WSW Power Investor pod cast later this week we will review several IPO's and exactly how to trade these new and some times explosive stocks.

Going forward we want to be patient at these times because the market is extremely bullish (sentiment) and we know that buying into that kind of excitement can turn nasty quickly and a correction appears to be occurring. Buy on the pull back and place your stops.



TSO (Tesoro Petroleum) NYSE + BATS © StockCharts.com28-Feb-2011 12:39pm **Last 23.81 Chg -0.36 (-1.49%)** ▼**MCF (Contango Oil&Gas)** AMEX + BATS © StockCharts.com28-Feb-2011 12:46pm **Last 61.31 Chg -0.09 (-0.15%)** ▼**EROC (Eagle Rock...)** Nasdaq GM + BATS © StockCharts.com28-Feb-2011 12:42pm **Last 9.68 Chg +0.10 (+1.04%)** ▲**TTI (TETRA Technologies)** NYSE + BATS © StockCharts.com28-Feb-2011 12:47pm **Last 13.69 Chg -0.03 (-0.25%)** ▼**REP (Repsol S A)** NYSE + BATS © StockCharts.com28-Feb-2011 1:39pm **Last 10.67 Chg -0.27 (-2.47%)** ▼**PDS (Precision Drilling)** NYSE + BATS © StockCharts.com28-Feb-2011 12:49pm **Last 11.56 Chg -0.03 (-0.26%)** ▼

DK (Delek US Holdings, Inc.) NYSE © StockCharts.com28-Feb-2011 12:51pm **Last 11.28 Chg +0.13 (+1.17%) ▲****CHK (Chesapeake Energy) NYSE + BATS** © StockCharts.com28-Feb-2011 12:59pm **Last 35.58 Chg +0.21 (+0.59%) ▲****EVEP (EV Energy) Nasdaq GM + BATS** © StockCharts.com28-Feb-2011 12:53pm **Last 45.56 Chg +0.50 (+1.11%) ▲****PDC (Pioneer Drilling Co.) AMEX + BATS** © StockCharts.com28-Feb-2011 1:01pm **Last 11.37 Chg +0.04 (+0.35%) ▲****KWK (Quicksilver Resource) NYSE + BATS** © StockCharts.com28-Feb-2011 12:58pm **Last 15.59 Chg -0.08 (-0.51%) ▼****XTEX (Crosstex Energy) Nasdaq GS** © StockCharts.com28-Feb-2011 1:04pm **Last 17.00 Chg +0.07 (+0.41%) ▲**

EXLP (Exterran Partners, LP) Nasdaq GM © StockCharts.com
28-Feb-2011 1:06pm **Last 29.44 Chg -1.83 (-5.25%)** ▼



SUN (Sunoco, Inc.) NYSE + BATS © StockCharts.com
28-Feb-2011 1:10pm **Last 41.74 Chg -0.44 (-1.04%)** ▼



PXP (Plains Exploration) NYSE + BATS © StockCharts.com
28-Feb-2011 1:07pm **Last 38.71 Chg +0.51 (+1.34%)** ▲



FTK (Flotek Industries) NYSE + BATS © StockCharts.com
28-Feb-2011 1:12pm **Last 6.58 Chg +0.05 (+0.76%)** ▲



UNT (Unit Corp.) NYSE + BATS © StockCharts.com
28-Feb-2011 1:09pm **Last 58.98 Chg -0.54 (-0.91%)** ▼

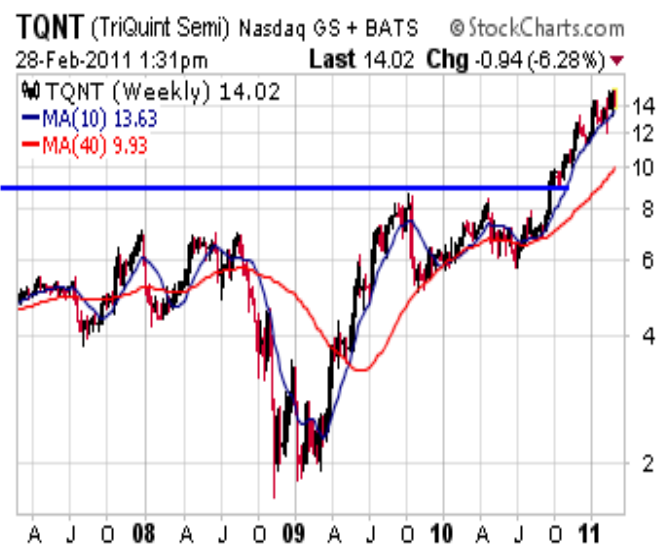
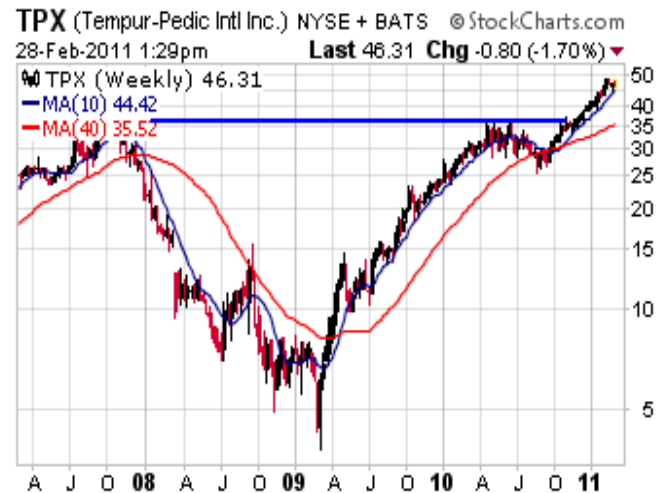


GLF (GulfMark Offshore) NYSE + BATS © StockCharts.com
28-Feb-2011 1:13pm **Last 43.10 Chg -0.40 (-0.92%)** ▼



SU (Suncor Energy, Inc.) NYSE + BATS © StockCharts.com28-Feb-2011 1:14pm **Last 46.65 Chg +0.79 (+1.72%) ▲****CRZO** (Carrizo Oi...) Nasdaq GS + BATS © StockCharts.com28-Feb-2011 1:23pm **Last 36.87 Chg -0.57 (-1.52%) ▼****UGP** (Ultrapar) NYSE + BATS © StockCharts.com28-Feb-2011 1:17pm **Last 16.06 Chg +0.49 (+3.15%) ▲****CPNO** (Copano) Nasdaq GS + BATS © StockCharts.com28-Feb-2011 1:24pm **Last 35.95 Chg +0.01 (+0.03%) ▲****OXY** (Occidental Petroleum) NYSE + BATS © StockCharts.com28-Feb-2011 1:18pm **Last 101.58 Chg -1.52 (-1.47%) ▼****LGCY** Nasdaq GM + BATS © StockCharts.com28-Feb-2011 1:25pm **Last 30.96 Chg +0.19 (+0.62%) ▲**

Below are stocks from various sectors that are worth consideration on pullbacks in the market. Most have broken out and are in upward trends or consolidation phases. Also on the last page are solar stocks which are breaking out of bases and should move up along with the energy sector as a whole.



IDTI (Integrated Device) Nasdaq GS + BATS © StockCharts.com

28-Feb-2011 1:32pm

Last 7.66 Chg -0.19 (-2.42%) ▼

**DAN (Dana)** NYSE + BATS © StockCharts.com

28-Feb 1:34pm

Last 18.7000 Chg -0.2900 (-1.53%) ▼

**ADP (ADP)** Nasdaq GS + BATS © StockCharts.com

28-Feb-2011 1:33pm

Last 49.61 Chg +0.00 (+0.00%) =

**NRP (Nat'l Res Partners)** NYSE + BATS © StockCharts.com

28-Feb-2011 1:36pm

Last 35.25 Chg -0.44 (-1.23%) ▼

**TDC (Teradata Corp.)** NYSE + BATS © StockCharts.com

28-Feb-2011 1:34pm

Last 47.61 Chg +0.13 (+0.27%) ▲

**ABB (Abb Ltd.)** NYSE + BATS © StockCharts.com

28-Feb-2011 1:37pm

Last 24.39 Chg +0.19 (+0.79%) ▲



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