



Stock Market Barometer

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Quote of the month:

“There is definitely going to be another financial crisis around the corner, because we haven’t solved any of the things that caused the previous crisis” - Mark Mobious.

The Summer Doldrums –Mike Swanson

I’m sure you have heard the old Wall Street saying “sell in May and go away.” Last year we saw the market go through a sharp correction in May that culminated in the flash crash and then sideways action until late August while this year the S&P 500 ended the month of May down one and a half percent, but was down almost half of that until the stock market went up yesterday. It often goes up the last trading day of a month thanks to mutual funds and hedge funds marking up their positions - the more they can make their holdings worth at the end of the month the more fees they make. It’s an old game that regulators turn a blind eye to.

Strength came in the US dollar and in bonds. In most years the stock market tends to drift around in the summer in a trading range, with overall trading volume dissipating through July and August as traders go on vacation so this action is typical of this time of year.

Statistically there is a reason to take note of the phrase “sell in May and go away.” Since 1950, according to the Stock Trader’s Almanac, stocks have gone up only 0.4% in the period between May 1st and October 31st, while they have gone up 7.4% in the months of November to April.

Now I’m not saying you should sell all of your stocks.

But overall after opening up in May, the market dipped for several weeks, and then went back up in the last days of the month. Commodities and most other world markets traded in synch with the broad US market averages.

But I’m saying that you shouldn’t expect big immediate gains now from most positions and the action is likely to continue to

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MICHAEL SWANSON

be very sluggish for the next few months.



Even though the market went up Tuesday I'm not totally convinced yet that the current pullback that started in May is over. Over the past eight years most corrections in the market - even in the most bullish of markets - end with a panic washout in which 90% of the volume on the NYSE is on the sell side and with a spike in the put/call ratio and the VIX. We have yet to see any of these things happen. Now yes there have been a few exceptions to this, but overall this has been a safe rule of thumb to bank on and do some buying once you see it happen.

Assuming the May correction is really over though I'd expect the market averages to make new highs and then pullback again. Either way I'm looking for sideways action overall for the market over the course of the summer with resistance in the 1375-1390 area and support in the 1250-1275 zone of the

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S&P 500.

I believe mining and commodity stocks are likely to trade overall in a similar pattern also. We may see more strength in gold than in the gold mining stocks for a few months also. In April and May when silver was on a tear the silver mining stocks vastly underperformed - warning that the move in silver was not going to be sustainable.

What I'm telling you is that right now for the next few months at least we are in a market environment, which is going to be tough to make money by trying to play rallies as if they are going to be sustainable. To play the long side of the market you are going to have to be willing to trade in and out of the market and shorting is going to be even more difficult, because we are not in a bear market. That is the type of market that is tough for most people to make money in, because most people end up buying near the tops of market rallies and then just getting shaken out when they run their course.

A sign of this is what I'm seeing when I look through individual stocks. Every weekend I look through about 2,000 of the best performing stocks in the market to look at their price patterns and see if I find any that look like they are in good consolidation/breakout patterns. For the past few weeks I have found very few stocks that look interesting. I've only posted a few in the WSW Power Investor service.

At times I can find dozens of stocks, but that isn't happening

now.

I take that as a symptom of a sideways market.

And I also take that as a sign that it is best now to have some patience.

It also means that making money in most stocks that are simply going up or down with the broad market for the next few months is going to be tough too. To outperform the market stock selection is going to be critical and the number of stocks doing this is growing smaller in number. Andy Emerson and Kevin Amos highlighted some good energy and utility stocks, most of which are paying dividends, towards the end of this monthly letter that you may want to check out.

Some sectors and stocks have bucked the overall trend of the market in May and broke out. The top performing sector for the month was music and video stores - which was moved up by another breakout in Netflix.

The other top performing sectors for the market were Internet service providers, jewelry stores, radio, wholesale foods, drugs, dairy products, synthetics, drug stores, tobacco. You can see a move into more defensive issues in May, but it is hard to say whether this is the start of a real trend or not or just a one month affair.

I use TC2000 to go through the market and it breaks the market up into 239 sectors. Only 55 of them were positive at the end of May.

As for the worst performing sectors they included in order, semiconductors, farm and construction machinery, investment brokers, insurance, farm products, manufactured housing, office supplies, cement, major oil and gas, advertising, building materials, home furnishing, computers, shipping, metals and mining.

Most of these sectors pulled back down through their 200-day moving averages, but have not been down below them long enough to look like they are in bear markets. The exception is the home construction related sectors which have been going sideways for over a year.



This month's newsletter has been short and to the point. I'll continue to look for the few stocks in the rough that have a chance to do well in this market environment, but this is a time not to get overly committed to the stock market and the best time to do buying will be when the market has a quick selling washout and not near the tops of rallies and resistance areas.

APA

Sectors & Stocks—Kevin Amos > Andy Emerson

This point in time stock selection is becoming very important. The trend of the market is still bullish but the selection of stocks is starting to narrow and we only want to be vested in stocks that we feel have a greater chance to outperform the markets. Below we are concentrating still in the energy and utility field. Most of these stocks pay dividends but are still in a very positive technical pattern.

FTO is consolidating above the 150 day moving average. Held up extremely well in the latest pull back in the markets this month.



TSO



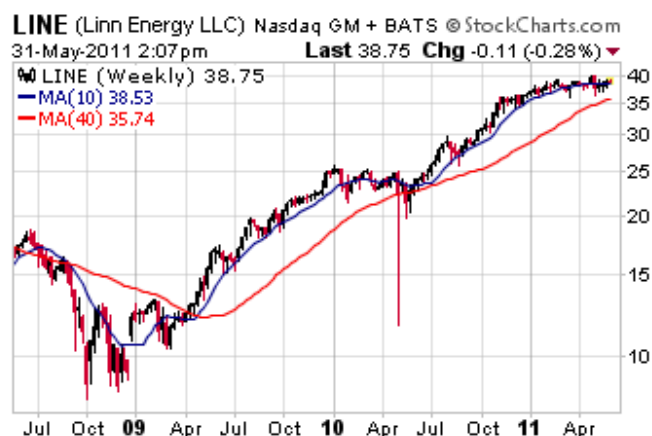
XOM



UGP



LINE



RRC



NGLS



MVO



AEP (American Electric) NYSE + BATS © StockCharts.com

31-May-2011 12:44pm Last 38.03 Chg -0.29 (-0.76%) ▼



AEP pays 4.8 dividend

GXP (Great Plains Energy) NYSE + BATS © StockCharts.com

31-May-2011 12:55pm Last 21.09 Chg +0.20 (+0.96%) ▲



GXP pays 4.0 dividend

PEG (Public Service) NYSE + BATS © StockCharts.com

31-May-2011 12:51pm Last 33.22 Chg -0.12 (-0.36%) ▼



PEG pays 4.1 dividend

BIP (Brookfield) NYSE + BATS © StockCharts.com

31-May-2011 12:59pm Last 25.17 Chg +0.18 (+0.72%) ▲



BIP pays 5.0 dividend

XEL (Xcel Energy) NYSE + BATS © StockCharts.com

31-May-2011 12:53pm Last 24.73 Chg +0.15 (+0.61%) ▲



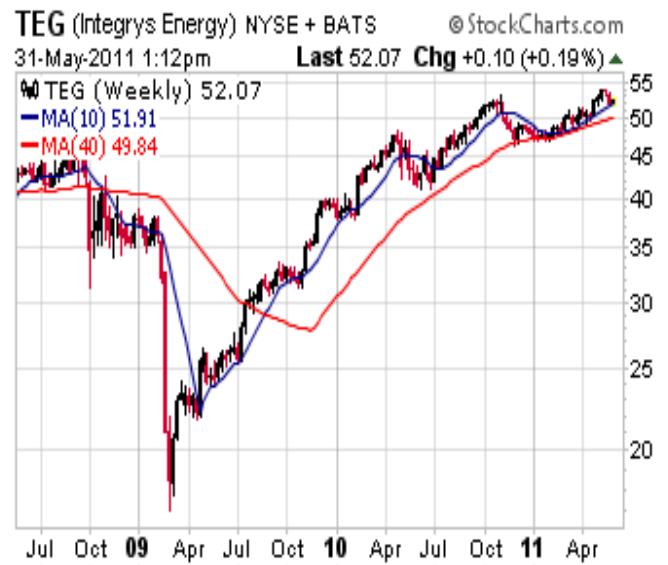
XEL pays 4.2 dividend

AEE (Ameren Corp.) NYSE + BATS © StockCharts.com

31-May-2011 1:01pm Last 29.73 Chg +0.04 (+0.13%) ▲

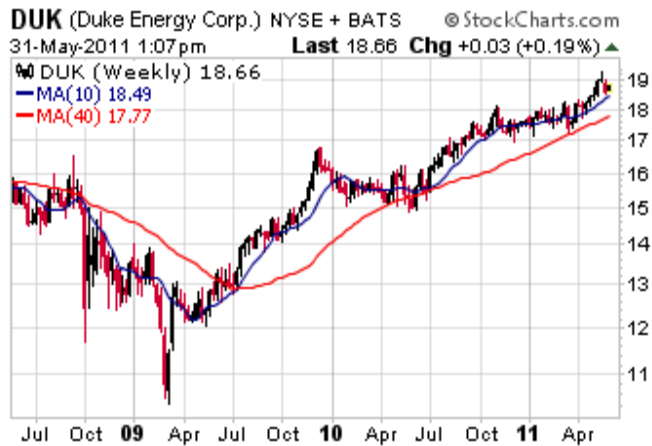


AEE pays 5.2 dividend



TAC pays 5.4 dividend

TEG pays 5.2 dividend



DUK pays 5.3 dividend

NI pays 4.5 dividend



CMS pays 4.3 dividend

POM pays 5.4 dividend

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