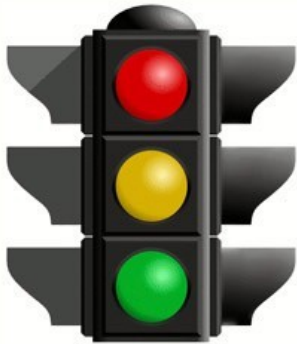




## Stock Market Barometer

*The Most Influential Financial Newsletter Read By Over 500 Hedge Fund Managers and Thousands of Elite Investors ~ July 2, 2012*



## A Summer Rally, But Then What? - Mike Swanson

After two back to back months of nasty declines in April and May the US stock market crawled its way back at the end of June to end positive for the month and for the year.

I do think the market stands a good chance to go higher in the next few weeks and I have some stock trading ideas for you if you want to play a rally, however I do not think this is an epic buy point and I fully expect we'll see the stock market turn down again once this rally comes to an end. If I'm right that will lead to a much sharper and scary decline in the Fall than what we saw in April and May, with the likely top coming in the second half of July or beginning of August. The European debt crisis is not over by any stretch of the imagination and the technicals of the market are shaky.

Yes the European elites did make a statement on Friday that got people who wanted to buy into a market rally anyway excited. It didn't take much of an excuse for them to buy. We don't even have the full details of what the Europeans are planning yet, but it is only one small step in what will become a massive bailout probably with the eventual implantation of Eurobonds later this year or next.

And yes I still think Greece will likely default in the November-February time frame. But for now those are things you don't have to worry about, because no one else is. Right now people are concerned about one thing - whether or not the stock market is going to go up after Friday's move and making sure they are in it if it does.

### Quote of the month:

"It stands because it's a tax "  
- Chief Justice Roberts

# STRATEGIC STOCK TRADING

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91.57	91.57	91.57	91.57	91.57	91.57
84.63	84.63	84.63	84.63	84.63	84.63
81.88	81.88	81.88	81.88	81.88	81.88
78.52	78.52	78.52	78.52	78.52	78.52
84.36	84.36	84.36	84.36	84.36	84.36
83.38	83.38	83.38	83.38	83.38	83.38
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**

Simply put mutual fund managers cannot afford to miss out on any market rally and the individual investor loves to jump in and try to play them. Most who do will end up getting trapped on the next top and selling in panic later. That is what causes the sharp declines you have had to experience in this stock market one to two times a year over the past few years.

If people can ignore Europe for a few weeks then they will start to focus on second quarter earnings reports that will start to come out in the middle of this month and earnings are always reported as positives no matter whether they are good or not, because companies don't have a hard time "beating" purposely low analyst estimates. It makes for good news on CNBC and allows traders to take advantage of the dumbest of people who buy into them. It's the Wall Street game and the individual investor is lunch meat.

It's called buy the rumor and sell the news. It's a pattern that leads to markets rallying into and at the start of earnings seasons and then correcting afterwards as shares are transferred to the short-term Wall Street trader to the couch potato who heard a good news story on TV and runs to the phone to put in a buy order right as a stock gaps up and tops. By the time you hear news about a stock on TV its too late, but that doesn't stop people from trying to play news even if they lose money over and over again trying to do so, because so many are simply addicted to the excitement and are pure gamblers.

But as a long-term investment point I think we are now months from such a thing. But it will come eventually. We have too much bullish sentiment in the market and a VIX that has come right back down. I personally am focused on taking big long-term investment positions as I outlined in last month's newsletter and am not that interested in trying to do short-term trades in this market, but most people who are reading this are more focused on the short-term than I am. The truth is anyone who is running a hedge fund and managing money has expectations among their investors that they must try to beat the market every month so if it goes up they have to play something or they will be left behind. It is the rare hedge fund that actually invests in the stock market. That's why the bulk of trades that go into this market are coming from computer programs.

Anyway, enough of this little rant. You can tell I think the market will likely rally for a few weeks, peak out, and then go into another nose dive. We'll talk about potential big peaks when they come. Right now we need to talk about the here and now.

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The big picture is simple. The major three US market averages are going sideways and are outperforming just about every other stock market in the world, most of which are in big stage four declines. This flow of money

from the rest of the world into the US came to define the market action towards the end of last year and is doing so again for the time being. Eventually this will change and things will bottom out in the rest of the world and lead to great overseas investment opportunities that I will be biting at the bit to buy, but that's in the future. Back to the present again.



The stock market closed at a key resistance point on Friday - the downtrend resistance line connecting the recent highs of the US market averages and the 2/3's retracement level of their March, April, and May tops. If it closes above this point than it will likely make a rally up to its spring highs with a top probably coming in the 1390-1420 zone.

Why a top? Why wouldn't the market just take off and drive though that Spring high and have a huge run? Well for one thing sentiment is too bullish in my view. The market is starting to rally from what is already a suppressed level for the VIX, because we didn't see a true panic bottom in May. That makes me think the ultimate bottom will come later. Over the past few years major tops in the market come with the VIX at 15 or lower. It's already at 17.08 so a rally for a few weeks would probably be all it takes to take it below 15.

Secondly, volume is thin and the participation in the market rally so far is poor. You can see this in the advance/decline line for the Nasdaq. What it shows is that there are fewer Nasdaq stocks rallying when the mar-

ket rallies. Now the advance/decline for the NYSE is still healthy so this means we are in a weaker market, but not a full blown bear market.

It means you need to be careful, because you can't just buy anything and expect to make money in this market, which you pretty much can at major market bottoms and the start of bull markets. That means to play the rally you need to do one of two things. You can either buy one of the ETF's that track the market averages, such as qqq or sso, to just play the averages for a few weeks or try to beat the market by playing one of the stocks that is outperforming the market and is in a technical position to make a breakout of some sorts. Here are four the best stocks in the Nasdaq 100 in my view for that type of play:

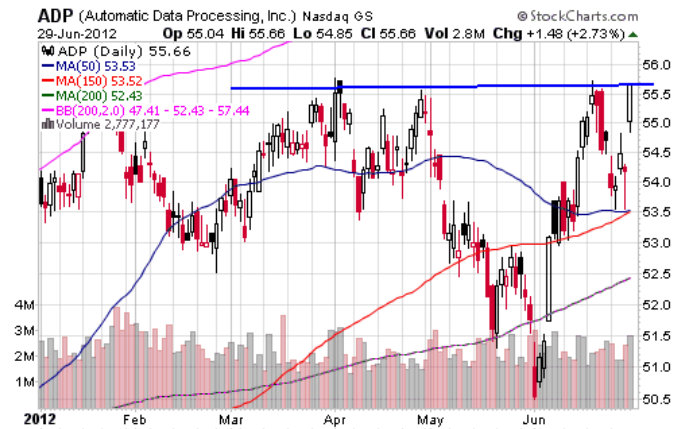
VRSN is trading right below its 52-week high with resistance at 44 and support at 42. That's a nice two point range. If it closes above 44 it should make a nice 10-20% move higher into its next earnings report on July 23. It has a P/E of 18 so I do NOT recommend buying it as an investment, but only as a trade.



BIIB has been one of THE top performing stocks in the Nasdaq 100 all year. Looking at this chart in fact you never would have known that the market had a bit of a tumble in April and May. To play it you would have to just buy it, put a stop below its recent low of 1375 1/2 and try to make a quick buick out of it. The stock is not in an investment position, but a trading position. For an

investment position you need a stock that is coming out of more of an established base or basing on a major market bottom.

ADP is poised to breakout of its March and April highs while the rest of the market is off of those highs. It should make a nice pop assuming the market does continue to go higher for a few weeks. Now I do not think it is in an investment position either - right now this is a market for traders. I think the time to invest to buy and hold solid stocks with good fundamentals and/or dividends will come in the Fall after another correction.



YHOO is an interesting stock because it has been forming a base now for over a year. If the market as a whole was making a major bottom it would be the type of stock I would want to buy. But it should be able to make a breakout of this base in the next few weeks and have a pop.

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