

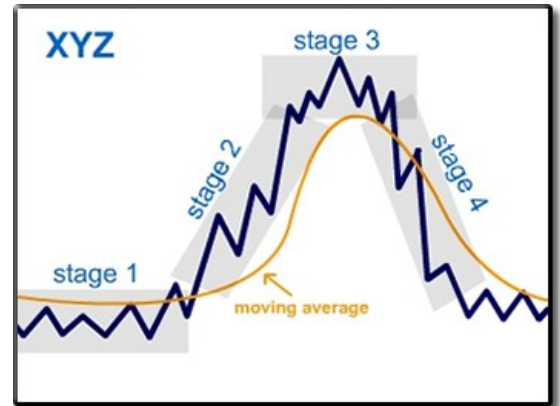


Investing in the Bottoming Process—Mike Swanson



I have a lot to talk to you about today. I took a stab at a short-trade last week, but am probably going to get out of that position and start to make real investments in European stocks and markets.

Let's forget about the news and the Nasdaq and US markets for a minute. I spent Saturday looking at the charts of not only European markets, but other markets all over the world and gold and commodities and something big is happening.



Most of the people reading this are US investors and we spend a lot of time watching the US market averages and hearing all of the news about them. All we are hearing about anything else is how bad the rest of the world is. How Europe is in debt and a disaster. The truth is over the past year the US stock market has done fine while almost every single other stock market in the world has been in a stage four bear market - with many markets actually having been in a bear market now for over two years, sometimes three years.

Those bear markets appear to be coming to an end. When stage four bears end a market typically does not just bottom and go straight up into a new bull market, but instead goes sideways for six months or so in stage four basing process at the end of which they turn up and enter new bull markets. One thing to keep in mind is bear markets often end with a final round

Quote of the month:

“We're prepared to do more” - The Bernanke

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71.25	71.44	71.63	71.82
54.63	54.82	55.01	55.20
51.82	52.01	52.20	52.39
785.32	785.51	785.70	785.89
84.36	84.55	84.74	84.93
83.32	83.51	83.70	83.89
84.32	84.51	84.70	84.89
85.62	85.81	86.00	86.19

MICHAEL SWANSON

of capitulation selling that can bring quick declines of 10% or more in a matter of days to mark a final bottom. Then there is a strong rally and after it ends a stage one sideways phase for a few months and then a new bull market. Sometimes that sideways phases sees a re-test of the ultimate bear market low, but sometimes not.

It appears to me that the European markets and almost every single market in the world is now in the process of entering a stage one basing phase. If so many markets put in big bear market bottoms in June that may never be seen again.

For one thing bear markets usually just last 1-3 years, they don't go on forever so the time is right. Plus we saw most markets fall 10% in a few days and bottom in June after having fallen for months on end. Finally many markets have now reached the type of crazy cheap valuation levels that a market only gets to a few times every hundred years. Markets such as Greece, Italy, Spain, and Russia to name a few are priced on a valuation basis at the same cyclically adjusted P/E level that the US stock market was at its lows in the 1930's, and reached in the late 40's and early 80's right before the start of its last two secular bull market runs. The bar on the right here shows you recent cyclically adjust P/E ratios for some of the major world markets. Anything below 10 is super cheap and above 20 is pretty much overpriced. 13-15 is average. Turkey is cheaper than what is on the chart, because unlike Europe right now its economy is in a big GDP boom. Turks don't know what a recession is right now.

At the same time the US stock market is now fairly valued. What this means is that once these markets enter stage two bull markets I expect they'll go up for 2-3 years during which time the US market will lag these markets. The US market may in fact not do much at all going forward but trade up in down in a 15% range.

Ok, now let's look at the charts because I want to show you what has my attention right now.

Country	Latest
Greece	3.26
Italy	6.96
Ireland	7.08
Portugal	7.39
Spain	8.61
Netherlands	9.35
Russia	9.44
Belgium	10.19
France	10.74
Austria	11.13
China	11.69
Germany	12.58
Singapore	12.58
UK	12.71
Australia	12.96
Sweden	14.23
Brazil	14.26
Switzerland	14.42
Japan	14.43
HongKong	14.48
Turkey	14.97
Taiwan	15.20
Thailand	15.41
SouthAfrica	16.92
SouthKorea	17.06
Canada	17.56
India	19.02
USA	20.94
Mexico	21.86
Malaysia	23.24
Chile	24.92
Indonesia	27.28



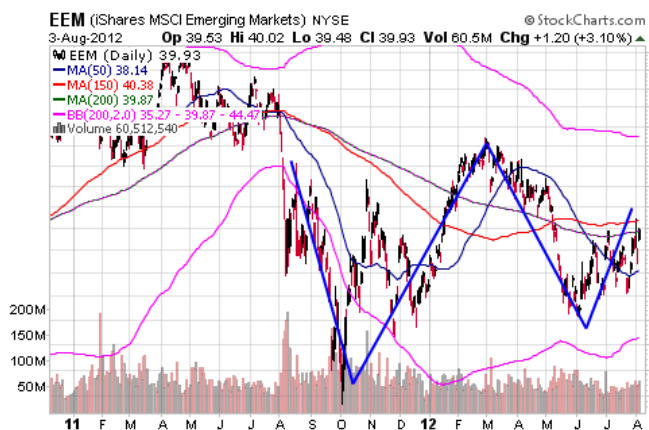
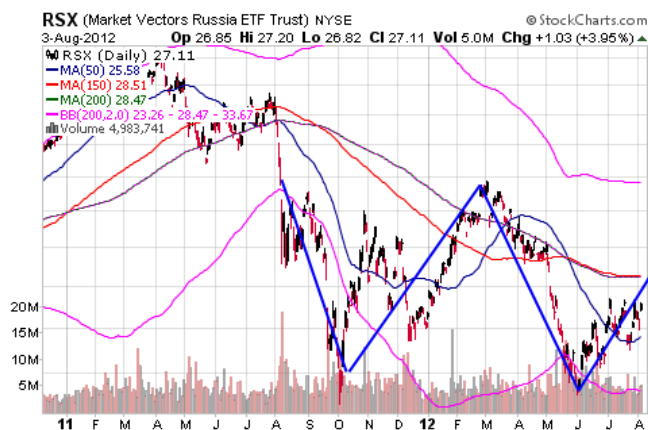
This is a chart of the ETF that tracks Germany. Most other markets all over the world are displaying a similar chart pattern. What you see recently is there was a huge drop down from May to June. Huge drops like this no matter what is going on in a market end with attempts to stabilize and rally. I had been thinking that the global bear market would come to an end when Greece defaulted sometime in the Fall or with a big correction in September, but right now though something else looks more probable.

The simple fact is that so many markets got so cheap on a valuation basis in May and June that it almost doesn't matter what the news is. What is more people expect eventually for the FED and ECB to pump out billions of dollars to buy bonds. Does it really matter if they start doing that in September or if its in November or even December? At this point all that matters is that it is coming.

After bottoming in June world markets popped up hard and then went sideways. On Friday of last week many of them broke out of this sideways consolidation phase and closed a little bit above it. If the rally continues then these markets will rally up to their next resistance area, which is their March-May highs. That would be a powerful rally from the June lows if it takes place. I would expect some sort of peak there and a few months of consolidation and pullback and then if there is another breakout almost every stock market in the world will have completed a stage four basing phase and will be entering a new bull market. People would look back and see a reverse and shoulders pattern on the charts that took place over a year. I've drawn a projection of how it could play out

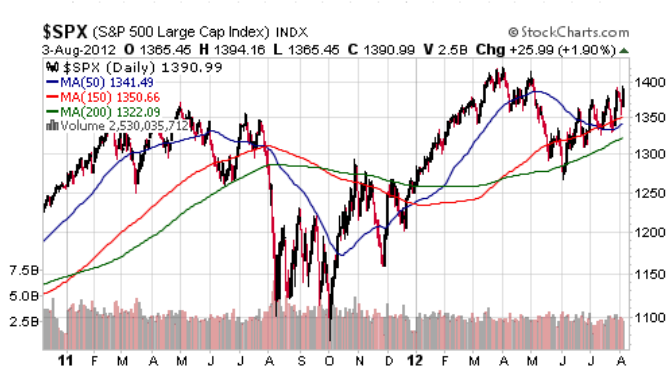
on the EWG chart. If this bottoming process is not happening then global markets will peak out within the next ten trading days and fall to new lows in September. At this point though I think the odds of this bottoming process and head and shoulders pattern playing out are 75%.

This is a change of what I have been looking for in the past few months and thinking would happen. Of course the US market averages do not have this same pattern. I'll get to that in a second. But first you need to see that almost every other market in the world does, with many commodity markets that had been weak the past year appearing to be on the verge of breaking either out of consolidation phases, such as gold, or stage four bases too, such as shipping stocks. Take special note of EEM which is a composite of emerging markets.





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Now if you look at any of the US market averages such as the DOW and S&P 500 you don't see this pattern that is being displayed by just about every other stock market in the world. What does this mean? If you only watch them you'll miss out on something big.

Miss out on what? Well most world markets have been in bear markets for at least a year and so have most commodities. Most bottoms don't happen overnight and then see a market just go straight up like a rocket in a V bottom. Instead most bottoms happen in a process over time in a stage one basing phase. Right now if the rally continues these markets will appear to have been in a stage one basing phase for a year in many cases and be positioning to start new bull markets by the end of this year. If not then the current rally will end soon with another big move down to new lows for most markets and big correction for the US market. At this point this seems unlikely.

Here is the thing though whatever happens in the next few months next year looks to be a big year for commodities and markets all over the world, because they should be starting new bull markets, that probably will last the typical 2-3 years. But the US market isn't in this position. That means that the US market will most likely lag next year and the year after markets all over the world. That shouldn't be a shocker if it happens, because the US has been leading for a year now. Money flows change. And this has happened before. Not even ten years ago. Look at the last cyclical bull market.



During the last cyclical bull market from 2003 to 2007 (do you notice the stage one basing phase in 2002 that marked a transition from the prior bear to new bull market like what seems to be happening now in world markets?) the stock market went up for five years. But in three of those years the market pretty much spent most of the year doing nothing but going sideways and ended up at the end of the year with less than a ten percent gain. Well in those years other markets did great. India went nuts. Turkey went nuts. Gold stocks had big times. I believe that is what we

are heading for going forward for the next few years. The cheap European and emerging markets are in a position to double over the next few years while the US just spends most of its time going sideways in big trading ranges with quick bursts up every once in while.

This means that it pays to take your eyes off the US and make sure you keep track of what is happening elsewhere. What I have been talking about the past few months is taking investment positions in these markets in cheap stocks. I was planning on doing that after we would see more selling in the market in the fall. That could possibly happen, but right now I think the odds are it won't. I plan on averaging into an investment position this year to take full advantage of what I think is coming over the next few years. I am planning on putting a portion - say from 20-30% - of my money in some good cheap dividend positions this week with the intention of holding them for the next few years. I do not even plan on putting stop loss orders on them. See if I just put 20-30% of my money in the market even a 20% drop on everything wouldn't be that big of a deal to me. Worst case things immediately peak and S&P 500 goes to 1275 for another bottom.

I plan on considering this my core position to hold and build around with the expectation of adding on to it with more positions sometime in the Fall or at the end of the year whenever we get another pullback. In other words I want to build a good solid investment position with my account over the next six months by taking advantage of pullbacks and consolidations when they happen.

Right now there are some stocks paying 10% and even higher dividends that I simply do not want to miss out on. If they go down after I buy that's ok, because I expect they'll be back up by the end of the year anyway and I won't have so much in them that I can't weather a little dip here or there. I'm buying to invest and not trade. I'm looking at things like the GNT fund (a gold and energy fund paying 10% dividends), the RSX ETF, and TUR ETF, Newmont, and a few other stocks. I'm going to look tonight and tomorrow to narrow things down and decide and will let you know once I do. I want my first round of buying to be in positions that buy dividends. The next round will probably be in a few more dividend stocks and positions that hold up on the next correction whenever it happens, whether it be in September or later in the Fall, like November, which seems more likely now.

A lesson to take from this is going forward for the next year it will be helpful not to focus on what the S&P 500 and US market averages are doing. Right now really they don't look exciting to me. They are just chopping up and down in a sideways pattern and maybe floating to the top of the range. These other markets are lining up for much bigger things than that. I think the current cyclical bull market though will last for several more years and in the last year pretty much everything will go up and have its day just like you saw in 2007.

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