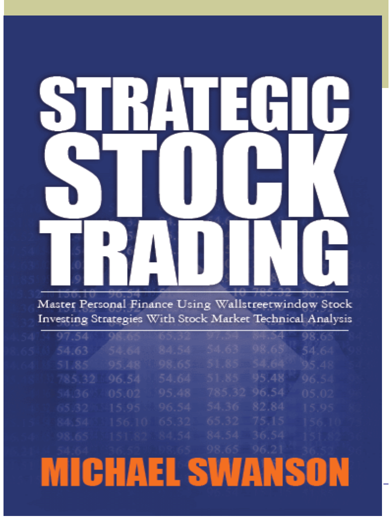
WallStreetWindow Monthly

Stock Market Barometer

Quote of the month:

"How much would you pay to avoid a second Great Depression?" - Ben Bernanke fear mongering in 2008 to force politicians to pass tril-



The Most Influential Financial Newsletter Read By Over 500 Hedge Fund Managers and Thousands of Elite Investors ~ Dec 1 2013

The Individual Investor Is Back —Mike Swanson

Happy Thanksgiving! I hope you had a great one. I know I ate too much Turkey! Stocks have gone up November which was fun too!

When it comes to investing the individual investor is back. After the 2008 stock market crash a lot of people got out of the stock market. As that bear market ended and this current bull market began they still cashed out from time to time as it went higher.

They didn't want to lose money in another crash and many of them simply needed the money. They either got hurt by the economy or simply got older and needed to be more cautious with their money. So they got out of stocks and into bonds and CD's.

But now many of those CD's are coming due and they do not want to lock up their money again for years on end and make nothing on it, especially when they face the risks of inflation growing and the stock market continuing higher without them.

So now the masses are getting back into the stock market. The number of people typing the words "stock trading" in the Google search bar is at a high for this year while data from Morningstar shows that small players have piled into stocks at a rate not seen since 2000.

According to Bloomberg, "The move marks a reversal from the four years through 2012, when investors put $1 trillion into fixed income as the financial crisis drove many to redeem from stocks and miss out as the Standard & Poor's 500 Index almost tripled from its low. Rare losses this year in core bond portfolios, coupled with a 25 percent gain in the S&P 500, spurred the switch back to equities that some professionals call risky performance chasing."

The small fry is back in game. What is fascinating though is that much of this buying from small traders has actually taken place in just the past few weeks.

And I know this myself from the emails I receive. In September and October many people on my free email list were emailing me telling me that they were worried about the market. It was dropping a little at the time (all foreign markets were going up though) and the TV media was talking about the government shutdown.

But since then the market has gone up to new highs - and now I'm getting dozens of emails from people wanting to buy stocks. Many of them are saying they are totally in cash now - owning no stocks at all.

There are millions of people now in this situation thanks to their CD's coming due. This type of small investor will be able to help drive the market higher overtime in the next few years.

What is scary though is that no one cares about what price they pay for stocks. They don't care that the stock market is overvalued and there is now a bubble in big cap "safe" stocks in the S&P 500. All people care about is that the S&P 500 is going up.

They may know deep down that stocks are risky. They lived through the crash of 2008. But the stock market is going up and they don't know how to invest in anything worthwhile. So they buy stocks. And then justify it by accepting the CNBC arguments for doing so.

But deep down they know they should be doing something smarter.

Ok, I'm going to write the rest of this monthly assuming that you are in the situation of having a lot of money you need to put into the financial markets.

You can put money to work safely in the stock market and invest in real things and make money. But to do that you can't just throw money right into it all at once - and you have to know what you are buying.

I can understand if a few years ago you simply got sick of the gyrations in the stock market and got out and now need to buy.

I traded the markets with shorter -term strategies from 1999 to 2011. I made money, but it was stressful and in 2011 I decided to just get out and take a break. So I sold everything. I also had other business opportunities I put that money into. I also saw new bear markets developing in Europe and saw an opportunity to sit back and invest for real in something cheap that would just be starting out.

So I got out and waited for that bottom. Then in 2012 I got back into the financial markets by buying after the bear market in Europe ran its course. Stocks there became cheap- they still are - and began new bull markets.

I have made a lot of money this year thanks to that decision. If you have been following me for awhile then you saw me do it, but I did not buy all at once. I did not go from zero to 100% invested in one day or one month. Instead I bought overtime.

If you got out of the stock market and are in CD's you may be upset with your decision. But when I got out of the market and then back in a year later it was one of the best things I ever did, because it gave me an opportunity to look back on what I did and to plan out a better way to invest in the markets. I stopped doing short-term trading based purely on momentum and invested in real things. As a result investing has become easy for me.

So you can learn from what you have done in the past and pledge to yourself that as you get back into the stock market game you will do so with a real game plan that will enable you to maximize your potential returns with the least amount of risk and stress possible. This your real great opportunity.

What I want to tell you is a couple of things. DO NOT just throw all of your money into the S&P 500. Please do not do that with your money, because it is probably the dumbest thing you could do and Wall Street preys on the dumb money.

What you need to do is diversify in financial markets all over the world and put the bulk of your investments in markets that are cheap and either are just starting a bull market or are closer to the beginning of one then the end.

Last year when I got back into the market there were dozens of markets in this position and that made it a great time to buy stocks all over the world.

Right now though the United States is into a four year bull market and is trading at a cyclically adjusted P/E over 24 - which makes it not such a great time to INVEST in the US stock market despite the fact that it is trading higher this month and EVERYONE is excited about it.

Sure I think the bull market will continue for a few more years, but bigger gains will come in market early in bull markets.

Even though the S&P 500 is up and that is all they are talking about on CNBC right now the truth is many of these world markets I bought last year are UP MORE!

And I expect them to go up at a faster rate over the next few years too.

While the S&P 500 is four years into a mature bull market and about to start its fifth year European markets are only one year into one and many of the markets in Europe are still at super low valuation levels.

The stock market in Argentina just started a bull market in August. I bought three stocks in Argentina one day last week and they were up over 5% each the NEXT DAY.

Gains like that happen in the right markets.

And gold and the commodity complex went into a bear market in 2011 that ended with a crash bottom this summer. They are basing and preparing the way to start a full blown bull market.

So there are still opportunities to get into the right markets and stocks in a position where they are at low prices so still have tremendous upside.

What would you rather do? Buy something after it has gone up for four years? Or after it crashed, stabilized, and is now going up.

Well, last year I did the latter and have been riding my account higher for nice gains - that come with no stress and worry, because I know I got in at a cheap price with big potential gains ahead of me - and still ahead of me.

You have to do your homework or have someone like me do it for you to play this game right. Now yes, there are still some stocks in the US stock market that look good, but the problem is most of the people putting money to work there are not looking for good stocks. Instead they are just buying some fund and hoping for the best - or else chasing high flyer stupid stocks like Facebook.

So first I want to tell you today to diversify in markets all over the world that are early into their bull markets and at low valuations.

There is something else you need to do too. You need to diversify by owning multiple positions. Don't just own one fund or a couple of stocks.

A few months ago I wrote about a study in this newsletter that crunched the numbers to answer the question - how many positions should you own to control your risk?

The answer is at least 10. And the optimal number is actually 30. After that each additional position in an account does very little to reduce position size risk.

I own over 30 stocks, but that's because after I got to thirty stocks I kept adding some deposits to my account. Here is the thing you need to know - once you own over 20 stocks and have less than 5% of your money in each one you no longer worry anymore what an individual stock does in your account. That makes investing easy, because it means you have nothing to worry about. The daily gyrations in your individual positions no longer matter - especially if you buy with good timing and get a nice quick cushion of gains to work off of.

TABLE 1
Expected Standard Deviations of Annual Portfolio Returns

Number of Stocks in Portfolio	Expected Standard Deviation of Annual Portfolio Returns	Ratio of Portfolio Standard Deviation to Standard Deviation of a Single Stock
1	49.236	1.00
2	37.358	0.76
4	29.687	0.60
6	26.643	0.54
8	24.983	0.51
10	23.932	0.49
12	23.204	0.47
14	22.670	0.46
16	22.261	0.45
18	21.939	0.45
20	21.677	0.44
25	21.196	0.43
30	20.870	0.42
35	20.634	0.42
40	20.456	0.42
45	20.316	0.41
50	20.203	0.41
75	19.860	0.40
100	19.686	0.40
200	19.423	0.39
300	19.336	0.39
400	19.292	0.39
450	19.277	0.39
500	19.265	0.39
600	19.247	0.39
700	19.233	0.39
800	19.224	0.39
900	19.217	0.39
1000	19.211	0.39
Infinity	19.158	0.39

Source: Elton and Gruber [8], p. 35. Portfolios are equally weighted. Elton and Gruber reported variances of weekly returns. We have converted these to standard deviations of annual returns.

Five positions isn't really enough to make any difference at all when it comes to controlling your position size risk and ten I think isn't enough to make you not worry about what each one is doing.

And if you worry you'll make bad decisions. It is too hard not to be emotional about a stock if it's daily moves are impacting 20% of your investment account.

So the second thing I want you to take away from today's newsletter is if you are going to play the stock market game you MUST own more than just a few big positions.

It also easier if you do not just go from zero to 100% invested, but average in over time. That's what I did last year when I got back into the stock market game. I just put what was a 1/3 of my money in my account at the time for my first purchases in a group of stocks and ETF's and have added on from time to time since then.

There is another thing you do to make things easy for you. This moment is an interesting time for the markets. December is historically the best month of the year for the stock market and almost every single year there is an end of the year rally.

What happens is that in the first week there is often a little pause or quick pullback to make for a nice time to get in, because after that stocks usually keep going up.

So on one hand that makes this month - and this week in particular -

a great time to buy stocks.

However, in a bull market the best time to really buy stocks is after the stock market pulls back 5-10% and reaches its long-term 150 and 200-day moving averages, which act as support in a bull market.

So the third thing I want to tell you today is if you have a lot of cash you need to use in the stock market I would do a little buying this month, but I wouldn't use all of that money at once. I'd wait to do more buying next year, because there will be a pullback at some point to take advantage of.

I'll do what I can to help you going forward in this newsletter. Tomorrow morning I'm going to put out a special report for you consisting of ten ETF's and ten stocks I'd be looking to buy if I had a lot of cash to use right now. Consider these my top stock picks for 2014. And consider this your time!

BTW—one last thing. If you look at the position risk table a few pages back again you'll notice that there is no real benefit to controlling risk in owning 30 positions and owning 1,000. Big funds though own hundreds of positions even though it is easier to pick out 30 good ones than hundreds of good ones. That is your advantage over the big Wall Street money fund. You can be a little bit smarter with what you buy. They can't because they have to invest hundreds of millions. Use this tip to your advantage and you can win.