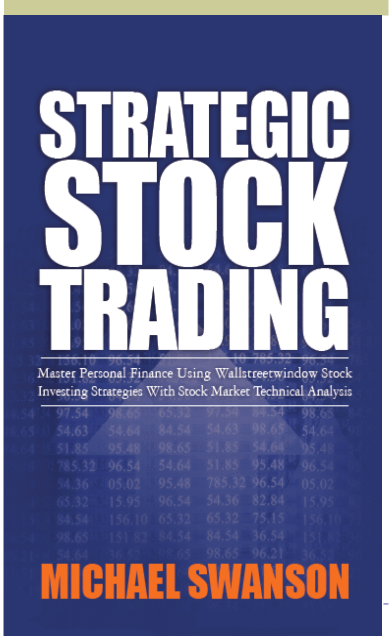
WallStreetWindow Monthly

Stock Market Barometer

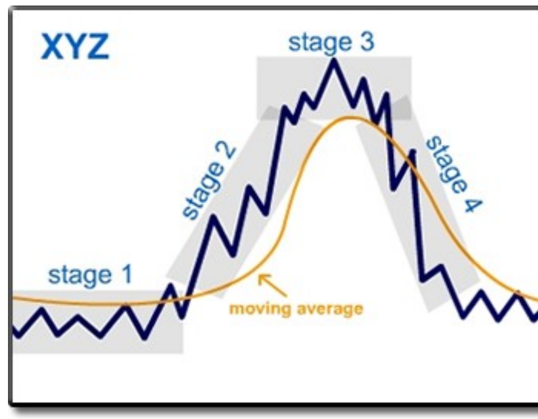
Quote of the month:

"In any investment you expect to have fun and make money" - Michael Jordan



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

Stock Market Forecast for 2013—Mike Swanson (01/01/13)



Two quick announcements until I get to what will be my most important monthly newsletter for 2013. First Dave Skarica and I are planning to put on an investment conference/get together in Nassau, Bahamas on March 9-11. We should have the details firmed up next week. We did one in Nassau in 2008 and had about 30 subscribers come and another 30 speakers and mining company financiers and executives come too. It was great fun. Everyone learned a lot, myself included, but it was neat for us to all meet one another. I hope if you came last time you will come again. By March it will be so cold in most of the United States and in Canada that many will want to come to the warm weather.

Secondly, I'm going to open up the premium Power Investor service to new people on the first trading day of 2013 on Wednesday January 2, 2013 at 12:00 PM EST. I only have space for about 200 more people, because we are doing monthly live webinars and they only fit so many people. So I expect the spots to go quickly. If you are not a member I'll put the link to join the service on the site at noon on Wednesday. Just go to the site then or check your email box.

Now for me this is the most important time of the year when it comes to investing and trading, because what I do from the time after Christmas to New Years is spend a lot of time looking at the markets and planning ahead for the next year. I focus my thoughts on one question - what are the trends that are going to be the most important in 2013 and what is the best way to profit from them? And then I share these ideas with you in this forecast newsletter.

Of course we may ask ourselves about the big trends throughout the year, but right now I find is the perfect time to really think about it and plan ahead. For one thing this tends to be a quiet time where you can get away for a few days and study and think about things. Plus being a New Year it makes for a time when you naturally think back on the year that went and plan for the year ahead. People like to make resolutions on New Years, but I find it actually better to just start to accomplish things right now.

For example a goal I have for 2013 is to publish a new history book. Well, I already finished the draft of the book this month so that goal is pretty much certain to happen. Dave and I want to do another investment conference so we are working on that right now to also make it happen. You have to take real actions and not just resolutions to make good things come true.

And when it comes to making 2013 a successful investment year for me that means taking the time NOW to figure out how to do that. The most important thing to accomplish that feat is to identify the most important trend of 2013.

At this time a year ago I saw that the most important trend in 2012 would be the fact that a bear market bottom would occur in European markets - and almost every market in the world. This wasn't hard to see, because if you recall in 2011 the strongest market in the world was the United States. Although the S&P 500 went up in 2011 just about every single market in the world finished the year in the red. That's because they were in bear markets. Now bear markets always end in a wave of panic selling. If you remember in December of 2011 I was very negative on gold stocks because of this. Just as the rest of the world made an important peak in 2011 so did commodities. I thought the gold stocks would end up falling into a bear market panic bottom in 2012.

I also thought that the US market would end up getting dragged down with everything else too. As a result I started the year 2012 in cash with the plan of buying stuff on a final global bear market bottom.

Despite being right about this the US stock market went up in the first quarter of 2012. Global markets and gold bounced too. That bounce made everyone either forget about what I wrote at the start of the year or just dismiss it. Americans who stay glued to only the US markets didn't even realize how damaged markets across the world were.

Then of course the summer Euro crisis broke and markets all over the world fell hard and bottomed to end their bear markets. Once again people missed buying into these bottoms because the news said everything was so bad that these markets could not be touched. They were wrong. But most Americans were wrong too because they had gotten conditioned by the US market doing so well in 2011 that they ignored what was happening in the rest of the world, and there wasn't a soul on TV who would challenge them to think otherwise.

The point isn't that I was right when most were wrong, but that I wasn't right about everything. I was correct that the most important market event of 2012 would be the end of the global bear market, but I didn't predict the rally in the first few months of the year. You don't need to be right about everything or predict every gyration of the markets to make money - you simply have to know what the most important trend of the market is and make a plan to take advantage of it to have a successful year.

So what will be the most important trend of 2013? Well, that's simple. We saw global markets make a bear market bottom in June of 2012. Since then almost every single stock market in the world has been making the stage one basing phase transition into a new stage two bull market advance. Some markets, such as Austria, have already broken out into new bull markets, while others such as Ireland, Italy, and Spain, are right on their summer resistance points and are on the verge of breaking them and thereby entering new bull markets of their own.

When new bull markets begin they usually go straight up for 6-8 months with hardly any real pullbacks to them. Think back to the US stock market from April of 2009 to January 2010 and remember the last start of a US bull market to get a feel for what I'm talking about. Bull markets really have three phases to them. In the first phase you see huge gains that people can't believe are real. They find reasons to disbelieve that the bull market is really happening, but gains keep happening anyway. That is where we are now in European markets. In the second phase the

market becomes less volatile and tends to go up 5-10% in a year, but those years are dominated by what seems to be confusing sideways action that beats up traders and frustrates people. That is where the United States stock market is now. That's why the breakouts of the Spring and Summer both led to seemingly fake rallies that quickly stalled out. It's why the corrections didn't lead to new bear markets as the doom and gloomers thought they would and why in the big picture the current dip of the past week linked to the "fiscal cliff" will be forgotten months from now. That's why the VIX seems to be so low now and why the market can make bottoms with the VIX below 30. It's why going forward the potential return for the US market in 2013 is pretty limited.

In the first phase of a bull market the market tends to go up with its upper 200-day Bollinger band. In the second phase the upper 200-day Bollinger band tends to act as resistance while the lower band acts as support. I bet you at some point in 2013 we'll see the S&P 500 fall down towards the 1300 level and its lower 200-day Bollinger band. Probably after the market makes a peak a few months from now. I think after the current fiscal cliff news story is over the S&P 500 will start to rally again and peak out somewhere around its upper 200-day Bollinger band. Then we'll get another correction. That's a traders market.

In the first part of the current US stock market cyclical bull market the S&P 500 went up about 70% in nine months from its April bottom of 2009 to January peak in 2010. It has since gone up about another 22% in the three years since then. The middle phase of a bull market bores most people to death and for good reason - not as much money is made in it. That's why this year more individual investors have taken money out of the US stock market than they have put into it and will keep doing so.

Now in the final and last phase of a bull market big gains are seen again just like in the first phase, but instead of disbelieving what is happening a mania develops as people convince themselves that the market will never stop going up ever again. We saw this in the final months of 1999 and beginning of 2000 with technology stocks. We saw this with people flipping real estate in 2005. We saw it for a few months in 2007 in the Fall as CNBC played clips of Ben Bernanke saying that real estate prices would NEVER drop EVER AGAIN and he would lower rates to zero to make the last stock market bull market keep going.

And I bet in a few years from now we'll see this final and third phase of the current bull market occur again - with new highs made in the US stock market and total blastoffs in gold and commodities, because I think that final move will be linked to high inflation. But that's in the future sometime after the year 2013. And after that final third phase happens there will be another bear market disaster all over the world - probably connected to debt problems in the United States. Then there will be another bear market bottom and wonderful investment buy point. It's all a cycle that happens again and again thanks to human nature.

But it is the coming year of 2013 that we have to think about and plan for today. And the financial markets in 2013 will be dominated by the trend of the new global bull market - stock markets outside of the United States - entering the first phase of what is a new cyclical bull market for them. That means we will see big gains for European markets, which are still the cheapest priced markets in the world and in the best technical/chart position to go higher occur while almost no one will believe what will be happening is for real.

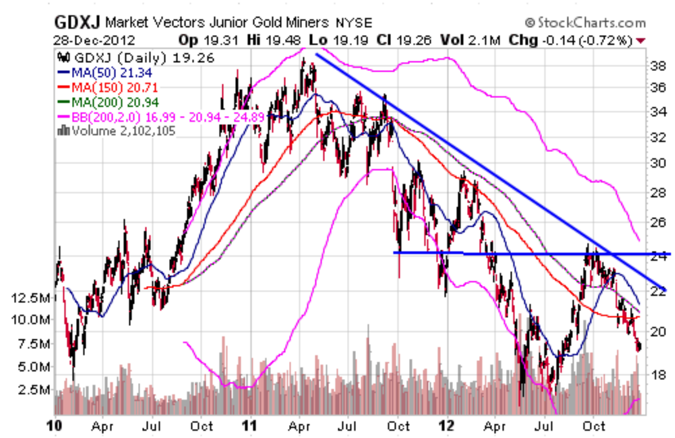
So in my view THAT is the most IMPORTANT trend to look for in 2013. I'm positioned already for it with holdings in European ETF's such as GREK, EWI, EWP, IRL, EIRL, EWK, EWO, and RSX. I'm also looking to add on with some individual ADR's, maybe this week. I think that January will be the last chance to buy into Europe and any pullback from the US fiscal cliff situation should be considered a gift. I believe you could just plop some money into European ETF's this week, turn off your computer, and come back at the end of 2013 and beat just about every single talking head and "Fast Money" trader you see on CNBC.

Now another big trend that will develop in 2013 is the start of new bull markets in commodities, mining, and energy stocks. Like Europe commodities and mining stocks peaked in 2011 and went into a bear market. They appear to have made bear market bottoms in 2012 along with the rest of the global markets and have since been in the technical stage one transition basing phase that is a prelude to a new bull market. While the markets of individual European markets are breaking out of their Fall highs to signal the start of new bull markets - or one the verge of doing so - commodities and gold are still below these highs. Once they break through them they will follow the global stock markets into new bull markets too. For the Commodity Research Bureau CRB Index a move above resistance at 320 (the point of its Fall high and upper 200-day Bollinger Band)

will spark a new bull market. Once the CRB closes above 320 you'll see it make a run for its 2011 highs in what will be the start of the first phase of a new bull market. Resource related stocks - such as energy companies and mining stocks will go up too. Many are now at cheap valuations and pay sizable dividends.

The CRB index has support at its lower 200-day Bollinger Band at 275. It's currently trading at 294, so it is about halfway between support and resistance. It would probably take an immediate whack in the financial markets to make it drop so it seems likely to be in a position to rally back up into resistance. If it does it would probably then pause or pull-back for a few weeks or a few months before blasting through it.

Gold is in the same position. Gold has major resistance now at 1800. If gold breaks through that level in 2013 it will begin a new giant bull market. It has support in the 1533-1600 area and is trading at 1658. That means right now gold's potential downside risk is about 8% while its upside over the next few years is more like 200-300%.



Another way to look at gold is to look at the gold mining stocks. Take a look at for the gold stock ETF GDXJ for example. It now has major resistance at its Fall high and upper 200-day Bollinger Band at the 24 level. It is unlikely - although possible—that it would just take off here and go through that resistance point and enter a new bull market without first pausing, consolidating, or pulling back off of this resistance level before going through it in a meaningful way. It will probably go back up to its Fall highs and pause for awhile and then break through them.

So when it comes to the trends I am most certain that European markets are going to start a new bull market in 2013 and generate huge gains over the next twelve months. For one thing it is already happening!

With commodities and precious metals it seems likely that they will follow the European markets into new bull markets by completing their current transition phase. Now I can't exactly predict how that will play out. I can't predict if they will pullback down to support first, go straight up to their highs and just go right on through them without stopping, or first go to their Fall highs and pause for a few weeks or months first. However, the last scenario is the most likely one.

It not only is what markets tend to do most of the time, but would fit with what seems to be happening in the US stock market. At the moment the US stock market has dipped over the past few days over the fiscal cliff news, however that should end by the start of 2013. Once its over I'd expect the US stock market to start to rally again. However, I think any rally from here for the US stock market would be limited, because it isn't that far away already from its resistance, is already overvalued, and is seeing increasingly bullish sentiment over the course of the past few weeks.

Put it all together and I expect the US stock market to rally and peak out in the first half of the year, probably in February or March, and then have another correction. Such movements would probably coincide with commodities going back up to their resistance points and then pausing. If this all plays out then after the end of such a US market correction commodities and precious metals would finally begin new bull markets. That would make a correction this year in the US stock market a final buy point for commodities and commodity related stocks.

As for European markets they may not correct hardly at all in a US stock market correction this year, because they appear to be starting phase one of a new bull market and during the start of a bull market pullbacks are very hard to come buy.

Ok so looking at all of these trends and putting it together here is my take on the best way to play 2013: have an investment position in European investments, ETF's are the easiest way to do it, to start the year, and just plan on holding it through the whole year and beyond. Be prepared to buy commodity related investment positions on a dip in the US stock market sometime in 2013. Own some already or buy some in January if you want to insure yourself that you don't miss out on a possible nonstop higher. One could be positioned 1/3 in European, 1/3 in commodities, and 1/3 in cash to use on a correction later and navigate the year just fine. I'm already 66% invested in Europe and plan to buy some more, because I really believe the biggest gains in the first half of 2013 will come there.

As for the US stock market my thoughts are to STAY AWAY from it. The reason why is that it is now in the middle phase of its bull market where gains are limited. What is more it would take a move of only ten percent to get the S&P 500 back up to its highs of 2007. The US markets are overvalued so to expect much more than that is dreaming. The S&P 500 has a CAPE ratio over 20 and it takes 10 or lower to be undervalued and 15 is about a mean valuation. So playing the US stock market as an investor means taking big risks to aim for a 10% return. You are better off investing in Europe where the risks are about the same and the potential return is twenty times better or getting into the energy and commodities markets - or even better BOTH.

Now maybe you got some computer program that does trades or some magic trading method, but I see no rational reason to invest in the US stock market now when the risk/reward is so much better elsewhere. This is why right now I DO NOT OWN A SINGLE US BASED STOCK.

To give you an example of what investing in the US means someone asked me during my last Power Investor Mastermind Webinar what I thought about health care stocks and Pfizer as an investment. Well I quickly looked and the health care ETF XLV is trading at a P/E of 16, which is ok, but not a bargain, and PFE is trading at a P/E of 19.49 and has a PEG ratio of 5.41. A PEG of just one is considered to be fairly valued. There is nothing wrong with Pfizer as a company. Maybe there is stuff going on I don't know about, but just going by these valuation metrics it doesn't make sense as an investment at this valuation to me.

And PFE is just typical of many of the household name stocks in the US stock market. One day PFE and other stocks like it will provide us with great investment opportunities, but that time is years in the future in my opinion. I don't think PFE is going to crash, but I just think it will trade with the rest of the US stock market. You can buy PFE and hope to make 10% and take on the risk necessary to do so. This is what happens after a bull market enters fourth year - valuations are high and the upside becomes limited. But I rather try to make more than 10% in a stock.

That's why European markets provide such a great opportunity now. The global bear market bottom of 2012 took valuations to super low levels and the new global bull market beginning right now makes it so the potential upside in them for 2013 is huge. The story is the same for commodities and energy and mining stocks too as they are also at depressed levels and haven't gone up yet.

Ok, so personally I'm about 66% invested in European ETF's and stocks and have the rest of my account in cash. We are seeing a little bit of a dip in the US market right now thanks to the fiscal cliff news. I will probably use it to buy some more European stocks this week and maybe some commodity ETF's or commodity related stocks. I think right now really is the last chance to buy in European markets before they start to runaway from us. I do think that we'll see commodities and precious metals go up to their Fall highs and pause there before starting new bull markets. I'd like to use such a pause to buy.

I also think we'll see another US stock market correction and bottom that will coincide with a buy point in commodities in 2013. My plan is to make sure I have some cash available at that time to do so.

I know 2012 was a frustrating year for most US investors, because the US stock market went up and down and faked people out. More people took money out of stocks than put into them so you know a lot of people got fed up.

The problem is 2013 is likely to be yet another frustrating year for the average American investor who gets his ideas from TV and refuses to invest overseas, in commodities, or to consider previous metals, because he thinks they are all "too risky." But 2012 was the year of the great global bear market bottom. The start of 2013 looks to be the start of the new global bull market. THIS WILL PROBE TO BE THE MOST IMPORTANT TREND OF 2013. It also looks like at some point in 2013 commodities and precious metals will follow global markets and begin new bull markets of there own. The US stock market will lag and the typical American will miss out again.

But this will be a fun and exciting year for us. I really think this is going to be one of the best years I've had in the stock market and I think it can be for you too. The thing is I really believe this is the critical time. If I'm right in 2014 I won't be writing to you about the start of new bull markets, but we'll be looking back at how we knew they were going to start in 2013 right now and took advantage of it. The sad thing will be that the gains in 2014 will probably be limited in comparison of what we will see in 2013, because the biggest gains in a bull market happen when they begin and not in their second year. That makes this moment right now critical. It is important to plan ahead this time of year for the coming year, but this moment is even more important than most.

That is why I think this monthly letter you are reading now will prove to be the most important one I write for you in 2013. The careful planning and thought now will make it so 2013 will be not only an exciting year, but a fun one too. I really am looking forward to the first week and month of trading action this year. I am looking forward to navigating this year together with you too. I hope you can make it to the investment conference we are planning for March. I look forward to writing more newsletters for you, making more trades, and putting together more Power Investor reports and Mastermind Sessions. If you aren't a Power Investor member don't forget to check out the details for joining it Wednesday at noon on my website WallStreetWindow.

Here's to a great 2013!!! GO EUROPE! GO GOLD! HIGH-HO SILVER AWAY!

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