



Stock Market Barometer

The Most Influential Financial Newsletter Read By Over 500 Hedge Fund Managers and Thousands of Elite Investors ~ November 2010 Issue Published 10/27/10



Quote of the month:

“The US is closer to a Japanese-style outcome today than at any time in recent history: - Fed Governor James Bullard

The Fed’s Liquidity Trap and Coming Inflation—Mike Swanson

We are putting out this November issue of Wall-StreetWindow Monthly a few days early because I’m traveling to New Orleans and then to San Francisco and Las Vegas. I’ll be speaking in New Orleans at the New Orleans Investment Conference at the downtown Hilton, which is just a few blocks away from the International Trademark and for those readers that know secret history 544 Camp Street.

I’m speaking Thursday around 5:50 PM right before Robert Prechter. Peter Schiff, Dave Skarica, Newt Gingrich, Dennis Gartman, and Marc Faber are some of the other speakers that will be there. If you are going to be there Thursday or Friday morning drop me an email at wallstreetwindow@gmail.com and maybe we can meet up. It’s a small world.

I’ve never been to New Orleans before. The closest _

I came was a few years ago when I took a train up to Atlantic City. When I came home by train I had nothing to do so I went into the dining car and ended up talking there for a few hours with an elderly black man that was on his way home to New Orleans.

This man told me something I’ll never forget. He said that in life things change right before your eyes, but you never notice the changes until you wake up and all of a sudden see them all at once when they make a sudden impact on you or force you to notice them

I remember a few years after I left college I went back to the campus and saw people walking around everywhere with cell phones. When I was there no one had a cell phone and today people can’t live without them.

STRATEGIC STOCK TRADING

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MICHAEL SWANSON

When it comes to financial markets changes take place slowly over time as big trends develop and old trends that everyone took for granted go away. Almost no one notices these changes until it is too late to take advantage of them properly or worse they become a victim of them, because they get caught up in the day to day gyrations of the market and daily news which is almost always just a bunch of noise.

Most investors spend all of their time chasing after stock tips and hot trading ideas instead of sitting down and doing the homework required to figure out what is really going on and what is going to be long lasting.

In a market like we've had this year and for the past few years keeping in tune with the big trends of the market has been more difficult than ever because we have seen such wild swings in the stock market from the crash of 2008, the bottom of March 2009, the May flash crash of this year, and now the subsequent rally and the talk of the moment of how Fed bond buying quantitative easing action is going to make stocks go up seemingly forever.

It is easy to get mesmerized by daily movements and seemingly important events. People were shocked by the terrorist attacks against the United States in 2001

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that took down the World Trade Center and hit the Pentagon. It was easy to think that everything would for from then on be different at the time, but terrorism had been a strategy used by Islamic fundamentalists for decades. Even though they scared people at the time the attacks didn't put a dent in the strength and vitality of the United States.

Anti-interventionists opposed the wars in Iraq and Afghanistan as a Bush war and argued against his seemingly new doctrine of preventive war, but the United States has been fighting interventionists wars and overturning governments it has disliked covertly and sometimes overtly with direct military force for the past 100 years since President William McKinley discovered the Philippines on a map and decided it should be his.

For over 100 years the United States Navy's largest naval base was in the Philippines in Subic Bay. The United States is building the largest military embassy in the world in Iraq bigger than the Vatican and will be there for 100 years until the oil reserve of the Middle East dwindle to nothing.

This is what great countries and great empires have done throughout history until they overstretch themselves and collapse from within. The world was a better place before the collapse of the Roman Empire than after it fell.

If you put the terrorist attacks and the past decade of US foreign policy in context with the last 100 years of American history they are

just blips that don't mark big changes but are just trees in a forest.

1914 marked a watershed for American history as the United States Congress ratified the amendment to the Constitution that created the Federal income tax and in that same year created the US Federal Reserve.

The mismanagement of the money supply and interest rates by the Federal Reserve directly caused the Great Depression of the 1930's, the stagflationary 1970's, and the current economic malaise people are calling the Great Recession.

Federal Reserve monetary policy is a history of failure. It may be simply that the economy is too complicated for us to be able to expect a committee of men to be able to know the exact correct interest rate policy to set to guide the economy and therefore they are going to always have interest rates set either too high or too low.

In boom times the average person gives no thought to the Fed and the media tends to praise the Fed. In the late 1990's there was talk that Alan Greenspan was so smart that he had abolished the business cycle.

Of course we know what happened afterwards - the tech wreck - and in response Mr. Greenspan with the full backing of the current Federal Reserve Chairman kept interest rates too low for too long and helped create the real estate bubble, which when it went bust took down the financial system with it.

In response to that crisis created by Fed mismanagement of interest rate policy, the Fed socialized the debts of Wall Street banks and transferred them on to its own balance sheet and on to the backs of tax payers.

A stagnant zero growth economy, trillion dollar deficits, rising unemployment, lost wealth, and wildly gyrating financial markets have been the results of this policy that we have seen so far.

Last year when the market bottomed in March there were expectations by people that the economy would begin a fully recovery, but that recovery stalled out this summer. The Federal Reserve is now worried that the economy could slip into a deflationary spiral and is preparing to announce its first measure of quantitative easing next week.

Many are excited about this. The stock market has been rallying for two months now into this widely anticipated announcement. Many bulls believe that it means that stocks are going to go up almost indefinitely now since the Fed is going to print money. But in reality the stock market has been going up the past few weeks to price in next week's FOMC meeting.

If you take your eyes off of this week's market action and the daily news and put next week's quantitative easing in perspective with the past decade of Fed policy you'll recognize it as a disastrous failure and as something to profit from by taking advantage of the new forces in the financial markets that it will unleash - mainly in-

flation.

The Federal Reserve has created a liquidity trap - the very existence of which is a testament to the Fed's failure to properly adjust interest rates correctly over the past decade.

A liquidity trap occurs when a central bank lowers interest rates to practically zero and fails to stimulate the economy because there is no demand for the extra money it creates.

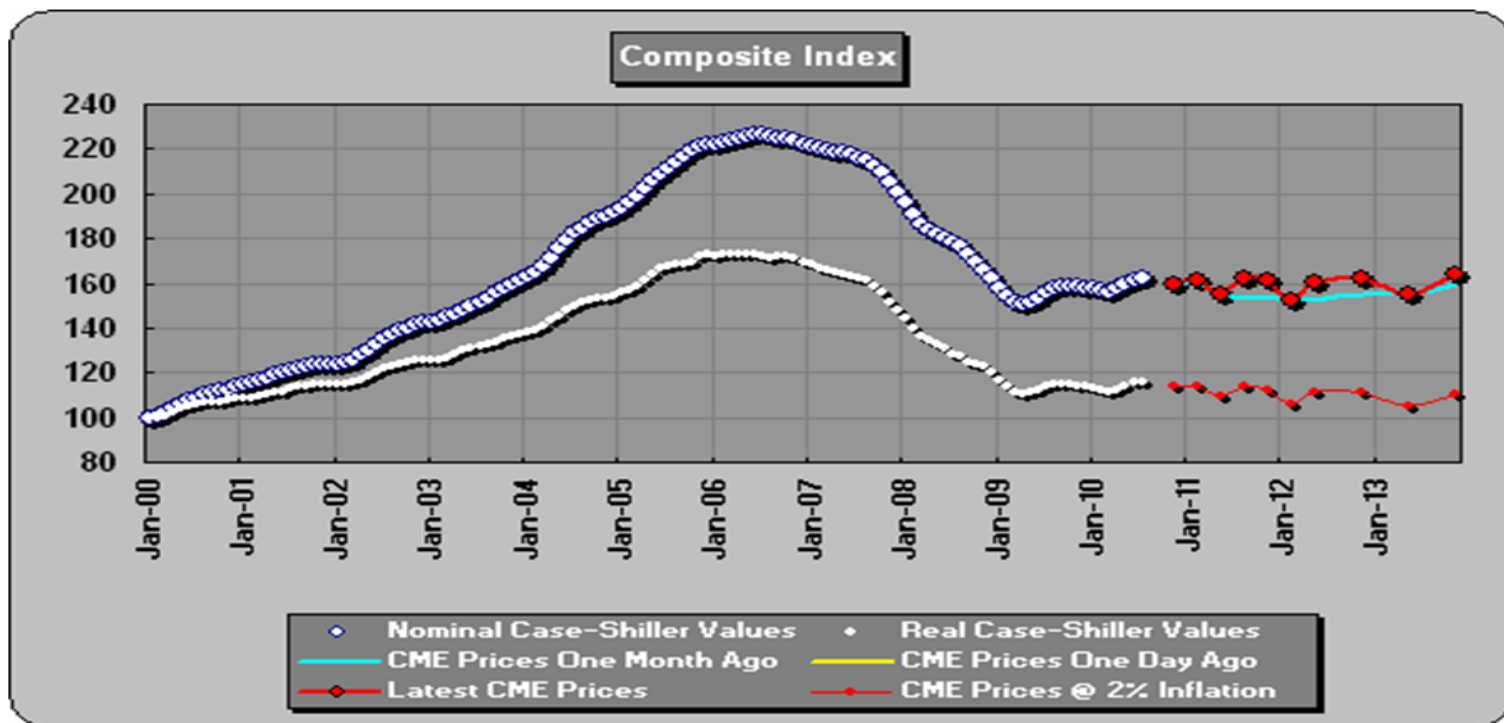
The concept came into prominence in the 1990's when the Japanese economy fell into a decades long stagnation - which it has yet to fully come out of - despite its central bank lowering interest rates to zero.

The Bank of Japan even engaged in the same type of quantitative easing being proposed by the Federal Reserve with no effect.

A liquidity trap occurs when banks, consumers, and corporations are more concerned with unwinding their debts than they are in taking on more debt or lending out more money. As a result low rates fails to entice borrowers and banks just sit on extra money given to them by the central bank.

This has been what has been happening since the Fall of 2008 and is why quantitative easing is likely to fail to stimulate any meaningful economic growth in the economy going forward.

In fact I do not believe we will see any sustainable recovery in the US economy occur until real estate prices across the country put in a final bottom - something that is likely to occur a year from now, because that is when the futures market on the S&P/Case-Shiller Real Estate Prices are now projecting a bottom for real estate.



What is more every sustainable economic boom the United States has had since 1900 has started first in construction and real estate. Since the real estate bust helped bring the current economic malaise it's hard to believe that it won't end until real estate bottoms for good.

Most knowledgeable commentators are skeptical about QE. Just this Tuesday El-Erian, the co-chief investment officer of Pimco, which runs the world's largest bond fund said, "One thing that the Fed cannot do is stand still, it is terrified of deflation. QE on its own means we'll have the same issues in six to nine months time with the rest of the world being inflated."

Olivier Blanchard, the chief economist for the International Monetary Fund claims that you "should not expect too much from further quantitative or credit easing."

Again the problem is with interest rates already practically at zero it is difficult to imagine QE will do much good for the real economy.

What it does is insure that the economy won't slip into deflation, which Federal Reserve officials fear would transform the current recession into something more akin to the Great Depression with massive bankruptcies.

The important thing as investors though is to figure out what this means for stocks, bonds, and commodities.

Even though we have seen some big ups and downs for the broad US stock market if you step back the market really has done nothing but go sideways all year. It seems that QE is unlikely to break this trend just as it will fail to bring spur any sustainable growth for the economy.

As for bonds, QE has helped fuel a massive bubble in bonds and at some point bonds will enter a bear market and interest rates will rise as bond traders start to worry about the inflationary pressures of money printing.

And that takes us to what I think QE is most certain to do and that is cause pockets of inflation in the economy. Not inflation everywhere though. Not in real estate. Maybe not even in the stock market. You see if the Fed is going to print money and that money is unlikely to go into the real economy it is going to go somewhere and that place is most likely going to be in the commodity markets.

A year from now we are going to still be in a near zero growth economy, but with new inflationary pressures. Unlike the 1970's we are unlikely to see inflation trickle into higher wage rates, because of the masses of unemployed that are in the labor market. That means people will be facing higher prices without more money going into their pockets.

This whole toxic combination is a recipe for stagflation.

Of course gold has been in a bull market for years now and has recently gone to new highs, but now it appears that commodity and commodity related stocks are just now entering new cyclical bull markets of their own. Most commodities have had sharp runs over the past three months that have cleared stage one bases and now appear to be in the first leg of a new bull market.



The broad market is very overbought now as traders have bid stocks up into next week's widely anticipated Fed meeting. At the same time the dollar has fallen sharply and gotten itself into an oversold position.

I think it highly likely that we'll see the stock market pause and pullback over the next few weeks as we see profit taking on the Fed news and US Congressional elections. Such a move would also bring short-term countertrend moves in commodities and the dollar against the big trends they are now locked in.

I think that you should consider taking money out of any individual positions that you may have that are lagging the market or simply do not like anymore with the intention of putting that money into use in stocks and sectors that hold up the best during the next correction whenever it occurs - and most likely those stocks and sectors will be commodity related.

I plan on buying several of the commodity ETF's such as DBA and COW when we get a pullback in the stock market and a basket of commodity related stocks. This is where the money will likely be made over the course of the next 12 months and we'll probably get an entry point in these stocks in November.

So to sum up right now the market is very overbought and the prudent thing for someone looking to money to work in it is to wait for the next pullback and then to look to buy commodity related stocks.

Sectors & Stocks—Kevin Amos and Andy Emerson

Since our last report a month ago the market has gotten in a little better shape. The number of stocks trading above the long-term moving averages is continuing to improve from last month. As for the long-term outlook this is placing the odds in favor of the bulls, but we still believe once the market takes a breather from this huge run we'll see if the bulls are about to take full control.

Below is a chart of the SP-500. Instead of writing a lot about the market we've decide to do some long term charts of what we feel will happen over the next few months.

When will be the best time to buy if you aren't in now or are looking to buy more?



To get a good buy point you need to wait for the markets to exhaust themselves **and pull back hard to the long-term moving averages. The above chart shows this best case scenario. We feel its in the best interest not to chase stocks in this position, but buy on a pull back.**

The bearish scenario would be if the market were to pull back down to the lower part of the trading range it has been in all year. Later next year then market would break down. Now this is only something to watch out for and we're just keeping all possibilities open until the market decides for us.

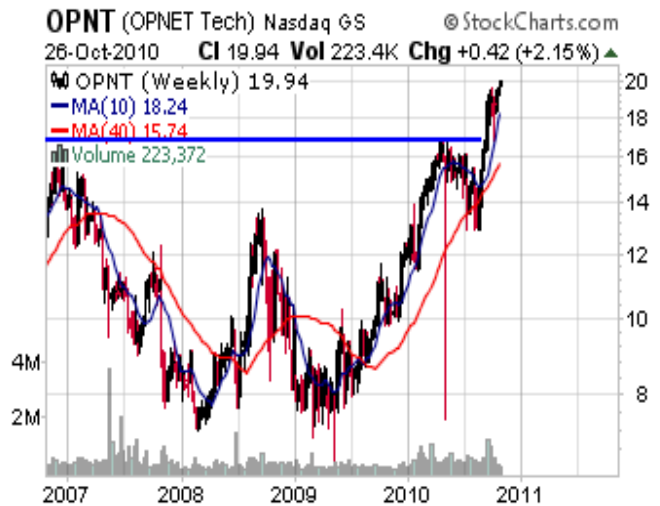
Below is a chart of how the SP-500 could look in the months to come if the bears were to take control.



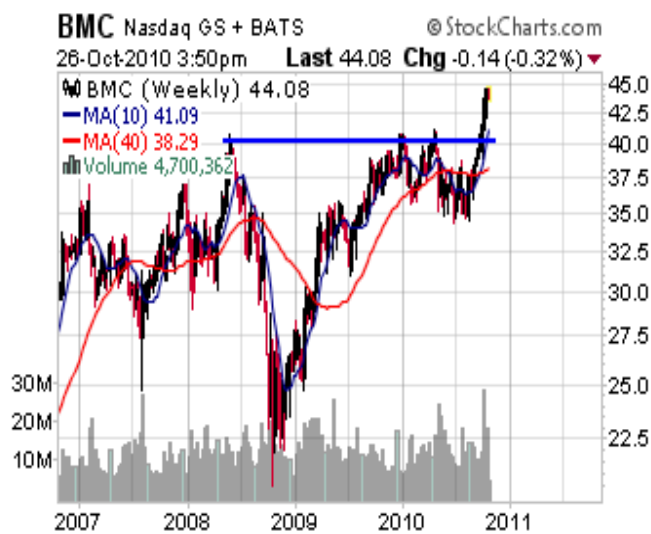
By waiting for a pull back near the long term moving averages we'll be able to decide what stocks are looking there best afterwards. Just taking a look at what's doing the best on this run might turn out to be the opposite on the pull back. We have a good idea where money might start heading but only the charts and time will give us the answers.

The next buy point we'll be looking at is a pull towards the 50 day moving average. A short term positive is that the 50 day moving average is crossing through the 150 moving average.

In the pages below are charts and symbols of stocks in sectors that are technically healthy and have broken out and could be accumulated on our next buy point in the markets or they have consolidated and could be played as breakouts. These are weekly charts and show how these stocks have cleared resistance levels and could turn out to be leaders of the markets if we do see the market continue to move higher.



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CVLT chart pattern is in a similar position.

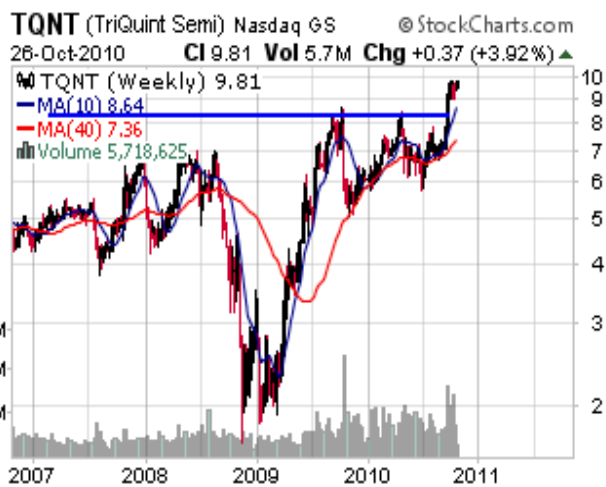


RHT

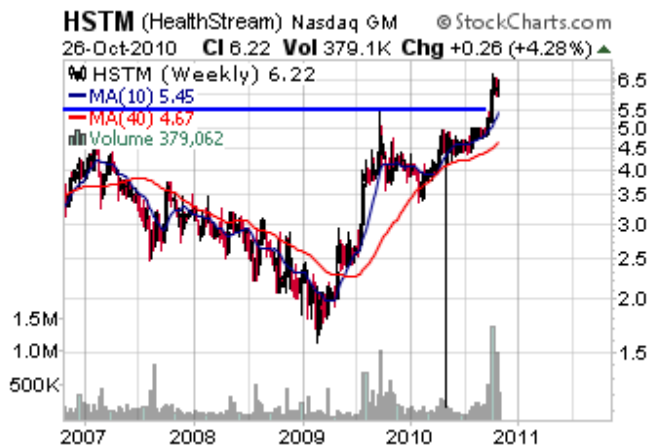
Internet Information & Technology



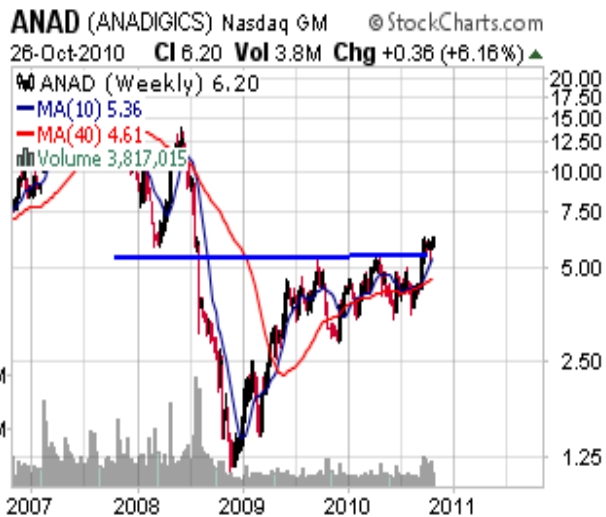
HSWI



TQNT



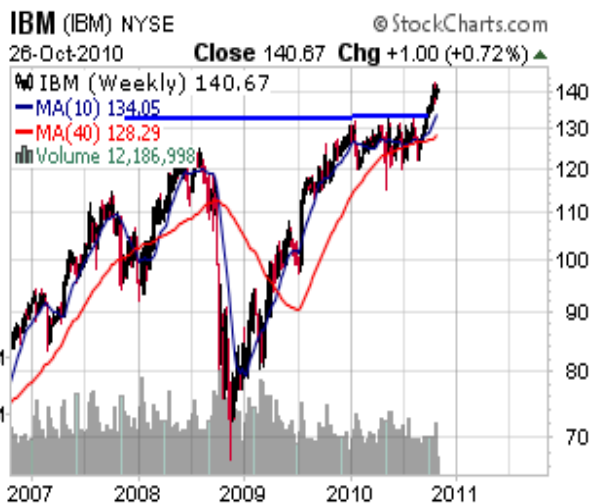
HSTM has a nice volume build.



ANAD



TDC

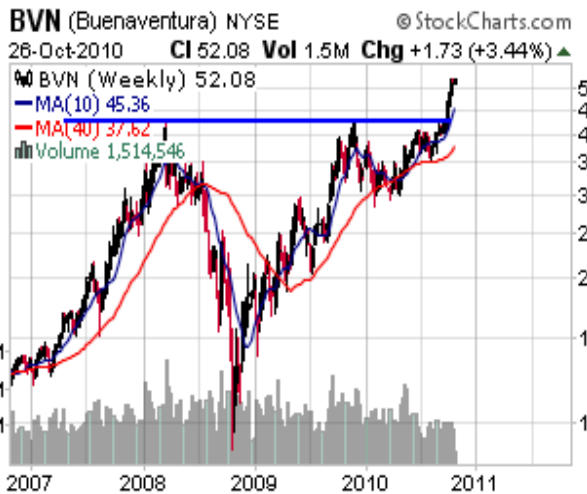


IBM

Commodities such as Gold are performing very well. Oil and others are in a position to possibly perform well in the coming months.



AZK



BVN



GOLD



GPOR is a oil stock with a high volume break out.



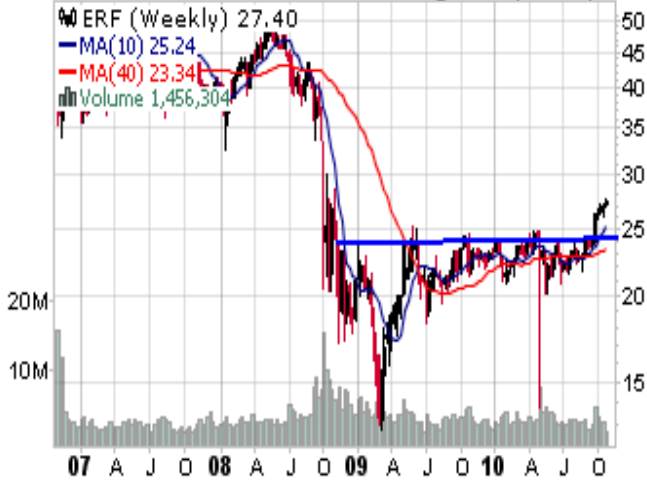
AEZ



WRES

ERF (Enerplus Resources Fund) NYSE © StockCharts.com

26-Oct-2010 **Cl** 27.40 **Vol** 1.5M **Chg** +0.52 (+1.93%) ▲



ERF

TGA (TransGlobe Energy) Nasdaq GS © StockCharts.com

26-Oct-2010 **Cl** 10.67 **Vol** 456.2K **Chg** +0.29 (+2.79%) ▲



TGA

CWEI (Clayton Wi...) Nasdaq GM © StockCharts.com

26-Oct-2010 **Cl** 60.52 **Vol** 58.1K **Chg** +0.20 (+0.33%) ▲



CWEI

This is a list of other symbols in these sectors to watch.

ORCL CHKP TIBX RDWR DDIC CEVA OPLK EGO NSU AEM RIC GG APAGF XTEX NOG

LCC (US Airways) NYSE © StockCharts.com

26-Oct-2010 **Close** 11.73 **Chg** +0.92 (+8.51%) ▲



HNT (Health Net Inc.) NYSE © StockCharts.com

26-Oct-2010 **Cl** 26.87 **Vol** 1.2M **Chg** -0.24 (-0.89%) ▼



LCC is in the airlines sector.

HNT is in the health care sector.

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