Stealth Bull Market Follows Stocks Bear Market

Bottom at Dow 6,470

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As stated in last weekends analysis and newsletter, following the Dow's close at 6626, that the Dow Jones Index had now fulfilled its bear market target of 6,600 as per the analysis of 20th Jan 2009 and illustrated by the chart below. The primary focus hence forth was to "position for a bullish spike higher", that would CONFIRM the bear market low, and negate the secondary far less probable overshoot target of 5,700 to 6000. This occurred on Tuesday which saw the first of a series of BUY TRIGGERS both on the Intra day charts and then on the Daily time frame charts that confirmed the preceding weeks bear market Low and set in motion the anticipated spike that took the Dow up 12% by the weeks close at 7,224.

Charts Courtesy of Stockcharts.com

The Stealth Bull Market is Born

As I warned of several months ago, do NOT pay attention to the fundamentals, they are IRRELEVANT AT MARKET JUNCTIURES. Stock markets that rally on bad news are SENDING you a STRONG SIGNAL, for the market MOVES AHEAD of any POSITIVE fundamental news or data, which is why stocks have soared by 12% in just one week despite the catastrophic economic data that many now see as the beginnings of the Great Depression II, which my analysis of October 2008 discounted and set in motion the strategy towards accumulating towards the final stages of the current bear market that was forecast to extend towards 6,600 in terms of price and Mid 2009 in terms of time, which hence brought in the possibility of an downside overshoot to 6,000 which I more or less discounted last weekend.

However you do not BUY a falling market, you wait for the Buy triggers as illustrated by last weeks price action, and warned off in last weekends analysis.

"Having now fulfilled the primary target of 6,600 the next phase of the strategy is therefore towards accumulating on buy price triggers in advance of what I consider will become a multi-year bull market, which appears contrary to many analysts."- 8th March 2009 – Dow 6626.

Now watch ! How this STEALTH bull market will consistently be recognised as just a bear market rally to sell into and NOT to accumulate into. All the way from 6,600 to 7,600 to 8,600, the move will be missed by most as consistently bearish rhetoric and data will ensure only the smart money accumulates, for the small investor has become conditioned to the bear market rallies of 20% and subsequently plunges to fresh lows. Many, many months from now, with stocks up 30%, investors will then wait for THE BIG CORRECTION, THE RE-TEST to buy into the apparent BULL Market , Well these investors will still be waiting as stocks pass the 50% advance mark, AGAIN only those that will have profited are the hedge funds and fund investors (Smart Money) WHO HAVE BEEN ACCUMULATING , as I elaborate upon next.

Hedge Fund Fraud on Investors and Tax Payers

The markets ARE manipulated, once you as a small investor come to agree with this statement then you can take the necessary steps to prevent yourself from being wiped out, by ALWAYS keeping this in mind. Manipulated markets WANT you to act in a certain manner at certain times, they want you to buy into the latter stages of a bubble as they distribute, and the MANIPULATED markets want you to SELL into Market Bottoms when the manipulators accumulate.

Who are the market manipulators ? Today it is the Investment banks, investment funds, CEO's (stock options) and last but not least HEDGE FUNDS that created the stocks bubble through leverage of X20 or more that subsequently bankrupted the banks that were driven insane by short-term greed with trillions of dollars of liabilities which have NOW been fraudulently dumped onto the tax payers. I have not heard a single story of a hedge fund manager losing money, not one! They have BANKED their profits ! The losers are their investors who held on and the banks who leveraged them up to the tune of tens of trillions, and in the final instance the Tax payers who are being FORCED to bail out the bankrupt banks to the tunes of tens of trillions!

The hedge funds HAVE PROFITED FROM THE CRASH – Because they manipulated the bubble higher and then manipulated the crash, HOW ? Its in plain sight, they sold the banks short into price oblivion, remember Bear Stearns ? Hedge funds shorted the stock and then pulled their money out i.e. caused a run on the bank and its collapse. Hedge funds manipulated the markets by magnifying the crisis of confidence. Targeting bank after bank after bank whilst raking in huge returns as I have repeatedly warned over over a year, as our very own HBOS fell victim to hedge fund shenanigans in March 2008. Unfortunately whilst the FSA regulator talked the talk about doing something about it, they in actual fact did NOTHING! March, turned into April, April into May and eventually along came Septembers crisis. Had the regulators acted then the close call with Financial Armageddon of September 2008 could have been averted as Hedge funds would have been forced into some strategy other than picking off the banks one by one! Just goes to show that the regulators on both sides of the Atlantic do not have a clue what they are doing and probably never will as they are always playing catchup.

The bursting of the bubble after the funds have taken their cash off the table has subsequently wiped out the value of the all stocks to bargain basement levels. However this now means that the unregulated hedge funds are at it again accumulating towards the NEXT mega STEALTH bull market. Why is it a stealth bull market ? Because everyone, and I MEAN literally everyone is CALLING THIS A BEAR MARKET RALLY TO AVOID BUYING INTO ! Everyone has given up. When in effect THIS IS HIGHLY PROBABLY THE MARKET BOTTOM !

Stealth Bull Market Targets

My original analysis called fore an initial 30% rise from the bottom into year end, so far we have seen a 12% spike higher in one week, therefore despite the inevitable corrections from overbought conditions, the forward trend will continue to maintain an UPWARD BIAS, off course 30% was a best guess made BEFORE the market bottomed, and we may see a substantially higher end year level which will become much clearer once we witness the quality of corrections against the trend and how the market copes with inevitably much worse economic news. Most investors memory is at this moment in time drawing on the experience of October and November's price action, i.e. where 10% rallies soon evaporate into fresh bear market bottoms, which is exactly the kind of mind set necessary for a STEALTH Bull Market, which allows the STEALTH BULL market to stealthy continuing rallying whilst only the smart investors accumulate.

Yes I am aware of earnings contraction forecasts that SUGGEST stocks should be going MUCH lower, were talking ridiculous price levels, however the bull market that was elevated to Dow 14,000 which was also accompanied by EARNINGS forecasts that suggested that Stocks should go MUCH HIGHER. So what does that tell you ? It tells you that what you tend to read is always suggestive of the JUNCTURE being FAR AWAY, NOT imminent. ITS IS ONLY AFTER THE FACT, AFTER MARKET'S HAVE ALREADY MOVED THAT THE JUNCTURE IS RECOGNISED AND ANALYSIS PRESENTED AS TO WHAT WENT WRONG WITH THE SCENERIO THAT CALLED FOR MUCH LOWER PRICES.

Similarly the wide spread consensus today exists for SHARPLY LOWER EARNINGS going into 2010 THAT MUST MEAN LOWER STOCK PRICES. This material should have been presented OVER A YEAR AGO ! in October 2007 I.e. at the market peak! NOT NOW AT THE MARKET BOTTOM ! We are again seeing REASONS as to WHY INVESTORS should avoid investing INTO the Stealth Bull market!, precisely as we all witnessed Bullish propaganda during the final stages of the Stocks Bull Market, so we are witnessing BEARISH propaganda in the final stages of the Bear Market, as it is always much easier to build a scenario in favour of a trend that has been in force for sometime that has generated much data and analysis in support of why it exists, then to think "Out side of the Box" to disregard bearish data that should have been known more than a year earlier in favour of the technical picture that as the analysis of October 2008 stated, that a. we are NOT heading for a Great Depression (as I will elaborate upon in the Q&A below) and b. The stocks bear market HAS fulfilled its bear market objectives in terms of price and time, more than could have been imagined a year ago.

But now, even after the stock price wipeout to below Dow 6,600. The weight bearing down of overwhelming data is in support of a continuing meltdown for many more years towards Dow targets such as 4,000 or even as low as 400 by what can only be termed as perma-bears. Remember Dow 14,000, no one paid attention to the perma-bears. Meanwhile the perma-bulls were eyeing Goldilocks levels of 18,000. There were calls that China's SSE at 6,000 should go much higher, despite being on a P/E of about 60, after-all did not the Nasdaq peak at a P/E north of 100 ?, so much for the earnings factor! In fact I pointed out at the time in November 2007 to forget SSE 9,000, its going straight to down towards an initial target of 4,000. Now earnings is brought to the fore to support a further collapse of stock prices, repeating the same mistakes that occur at ALL market Junctures ! Which is DATA is PUT AHEAD of PRICE ! To which my answer is this – What are you trading ? Are you trading the Data or the Price ?

The only thing that actually matters is the PRICE ! NOTHING ELSE! and I mean NOTHING ! Not earnings, Not fundamentals. Listen to the PRICE or you WILL miss this Stealth Bull Market!

Down Side Risks

Off course there is a downside risk to the new bull market, as I warned of in February 2009 that their exists the chance of a overshoot to the downside towards a target of 5,700 to 6000, forecasting is a measure of probabilities where you watch to see of if the market shows strength or weakness against the original forecast, which is the primary purpose of the forecast. However, as I pointed out last weekend at Dow 6626, this secondary target is an overshoot to the existing target which has been fulfilled, and therefore the expectations were for a bullish spike higher that would give the necessary buy triggers. THAT bullish spike higher OCCURED during the subsequent week which CONFIRMED The market bottom.

Now what the stealth bull market needs to do is put even greater distance between itself and the market low to further reinforce the market bottom. Therefore its a strategy of accumulating on reinforcing buy triggers, whilst liquidating on non confirming bearish triggers that reinforce the secondary target. I am afraid there is no crystal ball, therefore one needs to rely on reacting to the actual price movements as manifested by the buy and sell price triggers that conform or deny the scenarios. At this point in time the market is strongly confirming the bear market low. However the short-term overbought state does necessitate corrective action towards the support zone illustrated above to provide for a healthy stealthy bull market.

In Summary – We have in all probability seen THE stocks bear market bottom at 6470, which is evident in the fact that few are taking the current rally seriously instead viewing it as an opportunity to SELL INTO , Which is exactly what the smart money desires. They do not want the small investors carrying heavy losses of the past 18 months to accumulate here, No they want the not so smart money to SELL into the rally so that more can accumulated ! Therefore watch for much continuous commentary of HOW this is BEAR MARKET RALLY IS TO BE SOLD INTO as the Stealth Bull Market gathers steam.

Questions and Answers

This Q&A seeks to answer some of the emails received recently:

Q. How can you be bullish on stocks and bearish on the Economy.

A. The markets move ahead of the economy, whilst I don't profess to know the reasons of why they will move AHEAD until that becomes apparent AFTER the market has already moved, however I do have some suggestions in that INFLATION, Zero Interest Rates (Forcing savers / financial institutions to take risks) Quantitative Easing (money printing), and HUGE Fiscal stimulus packages are laying all of the ground work for the next bubble regardless of how bad things appear as any outcome that prevents another Great Depression will be seen as bullish! i.e. even a low growth high inflation stagflationary environment WILL be seen as a positive outcome against the present day data that points to a collapse of global demand on a scale not seen since the Great Depression. The governments HAVE learned the lessons from the Great Depression and WILL succeed in inflating the asset prices and ignite the next perhaps even bigger bubble, meanwhile the stealth bull market will continue which by the time everyone realizes what's going on stocks will already by up by perhaps more than 50% from the low.

Q. Recommend a Good Trading Tool

A. My Favourite Trading tool ? No its, not Gann, Elliott waves or any other technical tool, my best tool by far has to be the STOP LOSS. The second most important is the Stop and Reverse (SAR). What does this mean ? Well it means that in the final analysis all one needs to trade is entry, reversal triggers and stop loss levels. Let me elaborate – All entries must be based on an entry trigger, i.e. even if you only choose to trade in a certain direction, say long, then you don't buy into a falling market, depending on the timeframe your trading you wait for an entry trigger as indicated by last weeks intra-day dow chart.

Q. Do you offer a subscription trading signals service.

A. No, and neither do I intend on doing so in the future. The point is this, I trade, and therefore I don't want the psychological baggage associated with sharing short term trading signals, where I can imagine feeling the euphoria of big profit trades that makes many hundreds of subscribers thousands of bucks, many congratulatory back patting and positive subscriber responses, only to be followed by the inevitable stress from the losing trades, with You $%£;@er, I lost $x, what happened ???. This would be a sure way to destroy my trading confidence and trading ability as it would reintroduce and magnify psychological responses into to the act of trading.

Each individual trade should NOT invoke any significant emotional response due to the fact that there will also be many losing trades as well as winning trades, I understand this ! But would ALL subscribers ?, I very much doubt it! Off course the inevitable outcome would be that I would cease trading as the confidence of pulling the triggers would be gone and just become a trading signal peddler, but with that would go the 'edge' of really trying to understand the markets.

Therefore as I allude to above it is MONEY MANAGEMENT that delivers the consistent returns. What readers need to do is to EDUCATE themselves into becoming successful traders rather than rely on the signals of others. In this regard I do plan on sharing my whole trading methodology, via a book and freely at walayatstreet.com (points to my Market Oracle archive at present). To recieve my analysis in your email inbox make sure to subscribe to my Always FREE Newsletter.

Q. Where to invest during 2009 ?

A. Strategy here rather than stock picks. The strategy is clear, to accumulate stocks with stop losses in the decimated long-term growth sectors, the mega-trend sectors remain as I pointed in the October article are the Energy sector, that's crude oil and natural gas (hit fresh lows), Water and Agricultural Commodities, add to that Biotech, Health and Tech stocks. Continue to avoid the financials, they are insolvent. It appears the central banks are attempting to fiddle the books with regards proposed 'changes' to mark to market valuations so as to give the illusion of solvency. Yes financial stocks WILL soar, BUT like the penny stocks that they have become, they will exhibit much volatility where 50% gains one week could easily turn into a 50% loss the following week.

Also remember to use stop losses on ALL positions. i.e. you place the stop under the most significant low where the market cannot trade if you are right ! For you only get stopped out if you are wrong. The maximum for a stop on a stock is 20%, and you never move a stop against your position. ONLY in the direction of the position. It is such a strategy that turns a portfolio to cash during a bear market without seeing bull market profits turn into bear market losses.

On a closing note, I am more than happy to see many sites pick up my articles, but not so happy to see some sites edit out as much as 50% of article content to CHANGE the whole meaning of the article to support the site owners point of view, as I have seen happen with last weekends analysis. So please post in full rather than subvert the message to mean the exact opposite of that which was intended. Your Stealth Bull Market Accumulating Analyst.

Nadeem Walayat has over 20 years experience of trading derivatives, portfolio management and analysing the financial markets, including one of few who both anticipated and Beat the 1987 Crash. Nadeem's forward looking analysis specialises on the housing market and interest rates. Nadeem is the Editor of The Market Oracle, a FREE Daily Financial Markets

Analysis & Forecasting online publication. We present in-depth analysis from over 250 experienced analysts on a range of views of the probable direction of the financial markets. Thus enabling our readers to arrive at an informed opinion on future market direction. http://www.marketoracle.co.uk

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