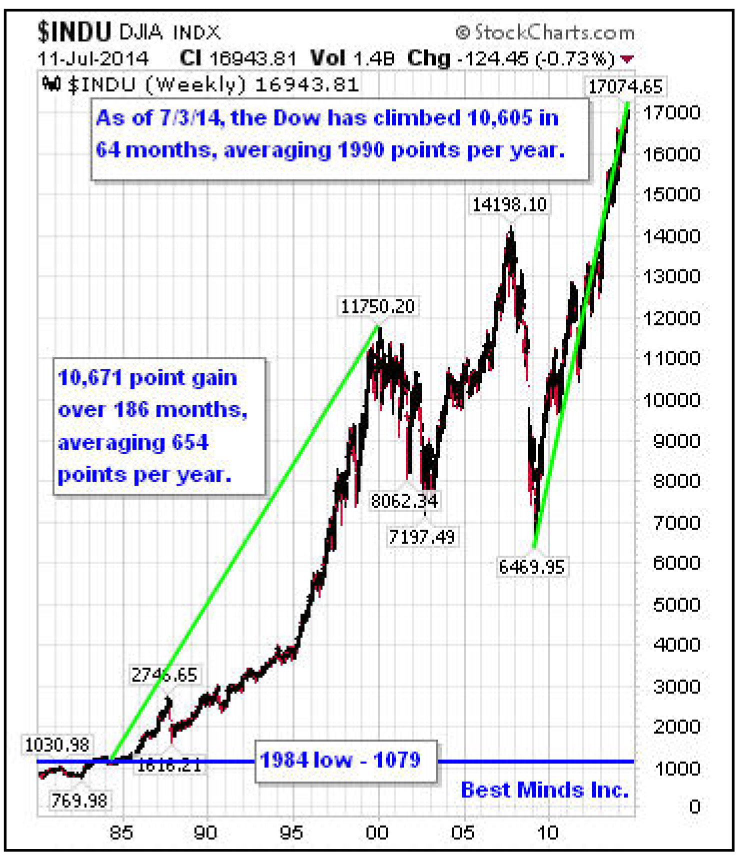
The Three Stocketeers: One for All and ... August 1, 2014

Doug Wakefield

Between October 4, 2011, and July 3, 2014, the broadest measure of publicly traded US stock wealth climbed $9.9 trillion. When one considers that as of the 2011 low on October 4th total US stock wealth stood at $11.2 trillion, this 88% gain in under 3 years to produce "highest ever" records repeatedly, have already been one for the history books, and anything but normal. So is this it?

Time will tell. But like all stock bubbles, EVERYONE WILL know that "THE" final "all time high" is over, only after trillions in wealth have been lost...again. Yes, we can all sit around hoping for more central planning, more debt schemes, and more corruption by the Federal Reserve to purchase high risk assets from the global banks dumping these assets on the books of the Fed – you know, the bank whose mission states "provides the nation with a safe, flexible, and stable monetary and financial system". But morally and practically, why would anyone think this would lead to a "stable monetary and financial system" after looking at the historical record? Just look at the chart found at the end of my July 15th public article, [The Yuan Stops Here](). Does this chart of the Dow over the last 34 years reflect a "stable financial system"? Why should we always think we need to be in a hurry to get in, or never get out, when busts always reveal someone certainly sold...and sold repeatedly.



So today, in a spirit of “one for all and all for one”, where “risk on” has seen trillions pour into assets all over the world since the fall of 2011, and “risk off” will see trillions pile out of those same markets in the future, I present three of the most watched US stock indices that this week turned from rising up to or over their latest “1,000” marker, to selling off hard. Since crowds always chase a rising trend, thousand level markers always prove to be a good way to seduce investors to chase a market higher. Yet once the level is attained that we seem so determined to reach, we have to ask the question, “Now what”? Who will keep buying up these markets to keep pushing our investments higher in value?

Everyone should be asking, “What tools grow money during extreme bear markets in stocks?” The history is there. They have been used for 4 centuries.

All for One….


$INDU Dow Jones Industrial Average INDX
© StockCharts.com
1-Aug-2014 1:45pm
Last 16512.64 Chg -50.66 (-0.31%)
$INDU (2 hour) 16512.64
17,000 level- first time ever
17151.56
17074.65
17056.46
16970.17
16970.02
16966.19
16805.38
16746.09
16703.73
16437.07
Best Minds Inc.
17200
17150
17100
17050
17000
16950
16900
16850
16800
16750
16700
16650
16600
16550
16500
16450
16400
Jun
9
16
23
Jul
7
14
21
28
Aug


$SPX S&P 500 Large Cap Index INDX
© StockCharts.com
1-Aug-2014 1:52pm Op 1929.80 Hi 1937.35 Lo 1916.37 Last 1927.08 Chg -3.59 (-0.19%)
$SPX (2 hour) 1927.08
2,000 level
1991.39
ATH
Once again, the speed down
is faster than the speed up.
1985.59
1983.94
1968.17
1955.55
1952.86
1955.59
1944.69
37 days up, 6 days down
1925.78
1916.37
Best Minds Inc.
1995
1990
1985
1980
1975
1970
1965
1960
1955
1950
1945
1940
1935
1930
1925
1920
1915
1910
1905
Jun
9
16
23
Jul
7
14
21
28
Aug

Two weeks from today is the end of monthly options for August. As we come through this period, I would expect volatility to be strong, and the desire to continue keeping prices elevated for the seduction that markets will once again run to these thousand level markers and higher. Based on the last three years, the signs of bullish extremes have shown up for so many months, that leaving this level has been and will continue to be fought on the way down.

But let me remind us all. For almost 3 years, these same markets have totally dismissed incredibly negative geopolitical news and economic data as computer algos and central bank planners have created what even they call "illusory riches".

Central Bankers, Worried About Bubbles, Rebuke Markets, NY Times, 6/29/14

"An organization representing the world's main central banks warned on Sunday that dangerous new asset bubbles were forming even before the global economy has finished recovering from the last round of financial excess.

'During the boom, resources were misallocated on a huge scale,' Mr. Caruana said, according to a text of his speech, 'and it will take time to move them to new and more productive uses.'

‘Despite the euphoria in financial markets, investment remains weak,’ the B.I.S. said. ‘Instead of adding to productive capacity, large firms prefer to buy back shares or engage in mergers and acquisitions.’

The overall, somewhat gloomy message from the central bankers was that *the world is drunk on easy money and has already forgotten the lessons of recent years.*

‘*The temptation to postpone adjustment can prove irresistible, especially when times are good and financial booms sprinkle the fairy dust of illusory riches*,’ the report said. ‘The consequence is a growth model that relies too much on debt, both private and public, and *which over time sows the seeds of its own demise*.’” [Italics my own. Because of its significance, this same statement is in my July 15th public article.]

Now I ask you, whether you are an investor, advisor, or hedge fund manager with billions, when the granddaddy of all central banks, the Bank of International Settlements, makes a statement like this merely a month ago, and we see price action like we have seen this week not only in US stocks, but many other global stock and bond markets, does it not seem to be time to “swing into action” with our brains? Does developing an exit plan really seem all that strange at this juncture of the boom phase?

We have already seen the last 64 months produce a rally equal in size to one that took 186 months to achieve between 1984 and 2000. How much more is enough, before the crowd shifts from greed to fear?

The Fourth Stocketeer

The last market we look at represents the country that has been Europe’s strongest economy since we started hearing “European debt crisis” in 2010. Since Germany’s DAX index has broken down from its 10,000 level, a level it only achieved for the first time ever in the last 2 months, would this not also be a warning sign to investors that never selling or reducing exposure to a market is unwise? It is obvious selling has been picking up since the start of July in German stocks.

A tulip, known as "the Viceroy", displayed in a 1637 Dutch catalog. Its bulb cost between 3,000 and 4,150 guilders (florins) depending on size. A skilled craftsman at the time earned about 300 guilders a year.[1]

“The seeds of the tulip mania have been the unattainable lure of fashionable and rare tulips, combined with the newly accepted practice of substituting more common bulbs to meet that appetite. But the mania reached full bloom only with the innovation of forward contracts and the leverage contracts afforded, which allowed traders to buy and sell commodities they did not own, had no intention of owning, and indeed did not even have the money to purchase outright.” [A Demon of Our Own Design: Markets, Hedge Funds, and the Perils of Financial Innovation (2007) Dr. Richard Bookstaber, pg 177. Bookstaber’s background includes director of risk management at Ziff Brothers Investments and Moore Capital Management, one of the largest hedge funds in the world. He also served as managing director of risk management at Salomon Brothers during the collapse of Long Term Capital Management in 1998, and was Morgan Stanley's first market risk manager during the 1987 collapse.]

As I stated in my last public article, no matter what nation we call home, history does not bend to our plans, but it is our plans that bend to history.

Have we Just Started the Switch from Boom to Bust?

If you are not spending hours connecting the dots of these powerful world trends, I would strongly suggest the paid research newsletters *and* trading reports available with a six month subscription to The Investor's Mind. Money is always moving. Bulls become bears and bears become bulls.

When you consider that the 2002-2007 run took 60 months to produced $8 trillion in US stock wealth, and then lost it all over the next 13 months, the cost of good research and critical thinking is about to become extremely small considering the money that can evaporate in the period ahead.

* **Riders on the Storm: Short Selling in Contrary Winds** (Jan '06) was a research paper I wrote on how investors are deceived, and contains interviews with industry famous contrarians. It can still be downloaded for free today.

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