Insider Money

Issue No. 62 ▪ May 23, 2013 | **Monthly** | **Editor: Stephen Briese**

This June issue is early. It is early because yesterday has a high likelihood of becoming one of the greatest stock market tops in history. If not, it indicates the risk of an imminent top. (It follows that today may be the start one of the largest bear markets in history.) History is shown on the chart below (*Source: InvestTech*).

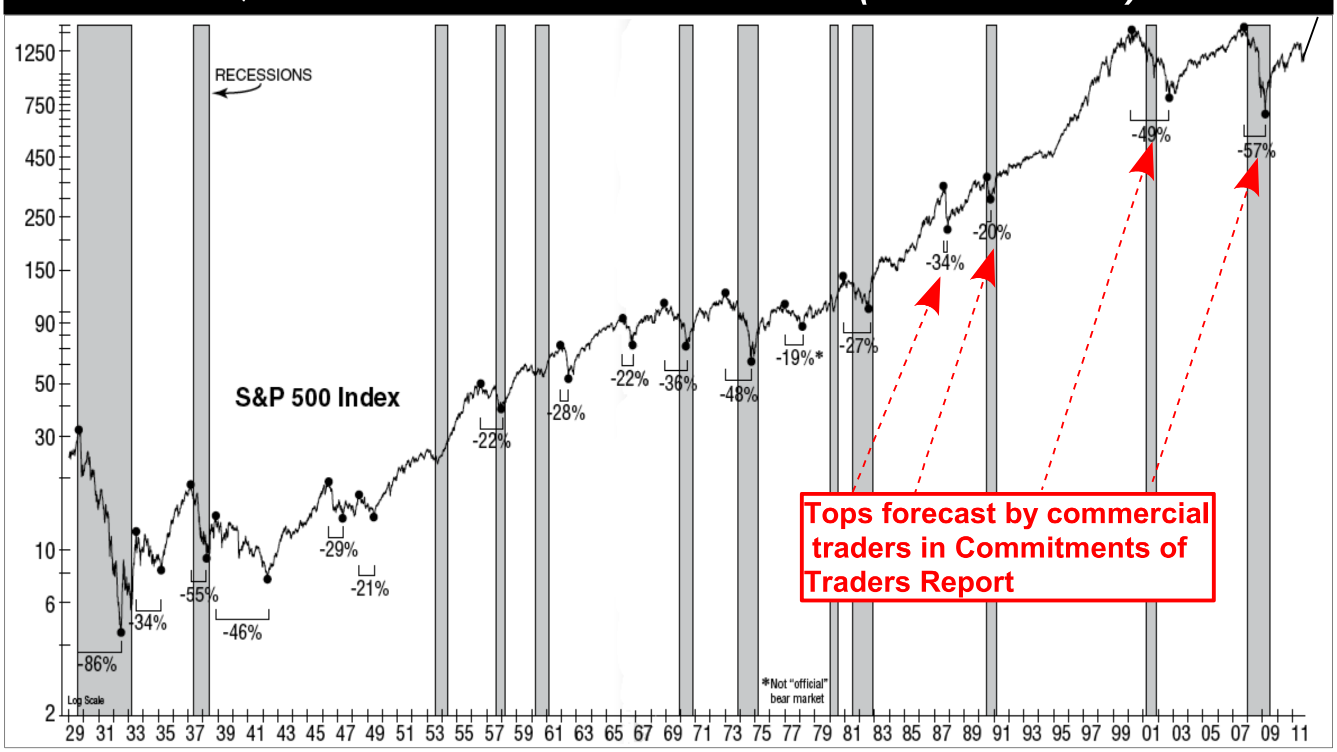
On a percentage basis, the 2007 to 2009 bear market at -57% was second only to the 1929 to 1932 86% decline. I expect the coming bear market to come in somewhere between these two, which creates a bear market S&P 500 target between 725 and 236. As I detailed in previous issues, I do not expect the bottom until 2016.

You can scoff at such a prediction, but do not do so lightly. My specialty is following the smart money, who are contrarian investors. At the biggest market market peaks, the majority is fully invested and at risk, while the smart money has already sold.

Asset Class	Index	2013 YTD
Gold	Futures	-17.42%
Gold Stocks	XAU	-38.83%
Equities	Wilshire 5000	+16.38%
Bonds	T-bond Futures	-3.95%
Euro	Dollars/euro	-2.92%
Real Estate	PHLX Housing	+18.90%
Commodities	Goldman-Sachs	-2.91%
	Average Return	-5.13%

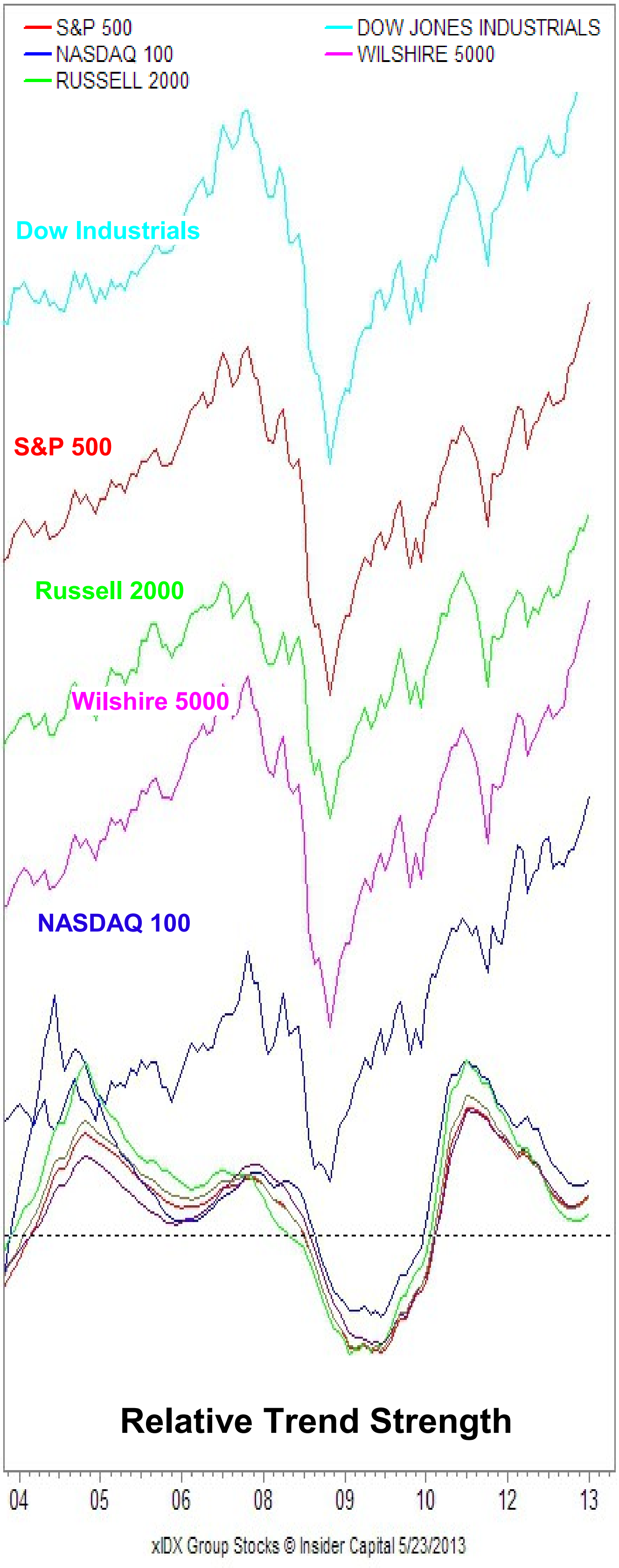
Mutual Fund	Index	2013 YTD
Bear Stock	Rydex Ursa	-16.82%
Bear Bond	Rydex Juno	+4.35%
Bull Bond	iShare IEI	+0.00%
Junk Bond	SPDR JNK	+4.09%

EQUITY BEAR MARKETS SINCE 1929 (Basis S&P 500)



EQUITIES

Stock Indexes Price Monthly



My primary source for spotting a consensus among the smart money traders is watching commercial trader futures and options positions in the CFTC's weekly *Commitments of Traders* Report. This is not an easy report to analyze. When you do not understand something, you tend to discount, ignore, or disparage it. I have lost count of the number of arguments I have heard over the past 25 years that the COT report is no longer relevant. Meanwhile, those who have followed my advice in *Bullish Review* have enjoyed early entry into some of the largest bull and bear moves in a wide range of markets.

In stock indexes, this includes:

June 11, 1990 *Special Situation: We have a sell signal this month as the COT Index dropped 76 points to 24%.*

RESULT: The bear market that began July 17, 1990 does not look like much on the S&P chart today, but this signal produced the Gulf War correction of 20%.

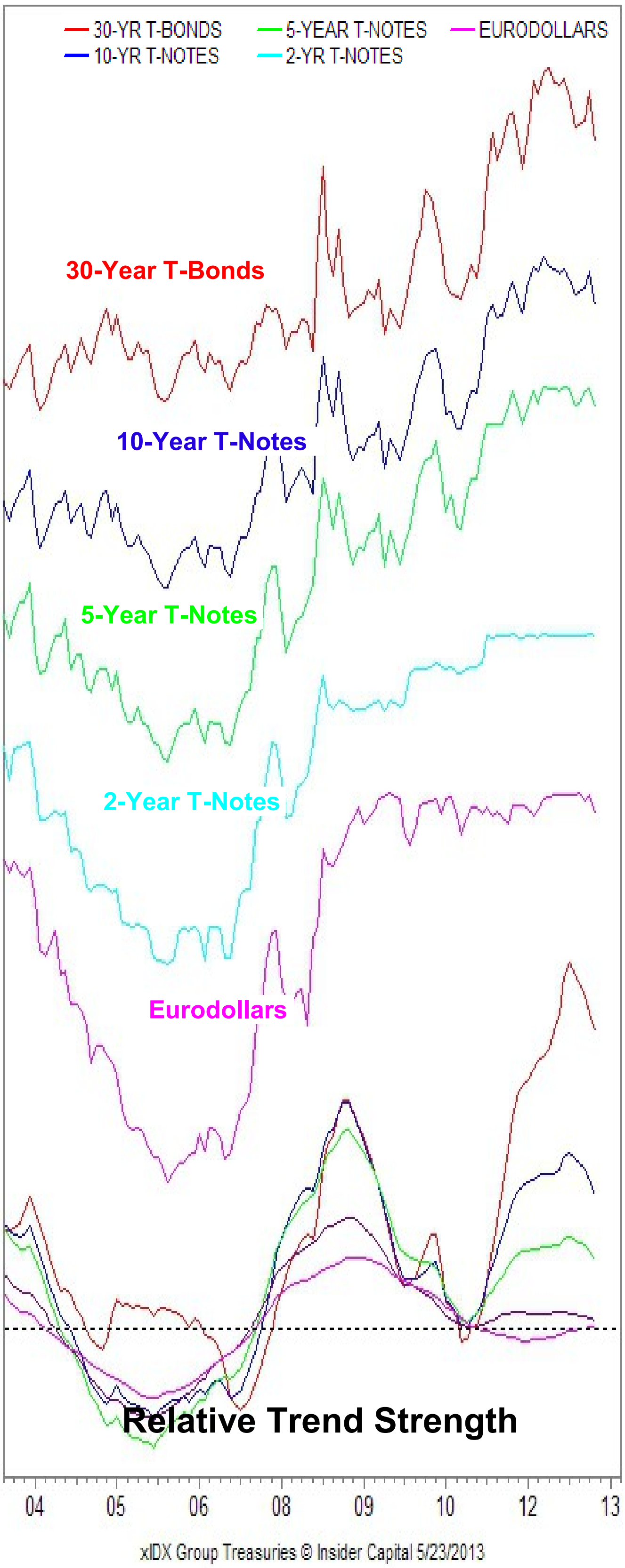
Dec. 20, 1999: *We published major CoT sell signals at the April 1998, October 1997, and January 1992 market tops. Commercials are currently more bearish than at these and at the October 1987 top. In fact, the current net short total is a 13.5-year high. This represents a major CoT sell signal in every sense of the word.*

And this prophetic note that preceded dozens of company failures over the next three years, including: Montgomery Wards, Bethlehem Steel, Northwestern Steel and Wire, Arthur Anderson, Adelphia, Napster, Spiegel, Global Crossing, and Enron:

I have told this story before, but it bears repeating. My entire stock portfolio consists of new technology issues spotted by my great grandfather in 1926 to 1928. He was apparently a buy and hold convert because these stocks have remained in my family for four generations. The last three generations have had little choice but to follow suit, since these technology companies did not survive the 1929 crash. Many of today's stock market leaders represent competing technologies, some of which will go the way of Betamax--you remember, Sony's ill-fated video standard. Sony was diversified enough to survive the VHS victory. Many of today's single-technology companies are not. --Bullish Review 19 Dec 99.

TREASURYS

Treasury Prices Monthly



RESULT: The bear market that began 24 days later, on Jan. 14, 2000, cut the S&P 500 in half over the next 2.75 years.

Nov. 12, 2007 *Bullish Review: In 2000, a similar pattern was noted in NASDAQ futures. Commercial buying drove the record rally. Yet, in April 2000, commercial selling triggered a major COT sell signal within 10 days of the all-time high. In the years since, our NASDAQ indicator has produced a number of timely signals of both the buy and sell variety. Commercial selling reported in last Tuesday's Commitments report triggered a major COT sell signal in the NASDAQ.*

RESULT: This signal produced the second largest bear market in history, plunging the S&P 57% over the next 18 months.

The *Commitments* data has not been useful only in stocks.

March 31, 2008 *Barron's* cover story Who's Behind the Commodity Boom? by Gene Epstein:

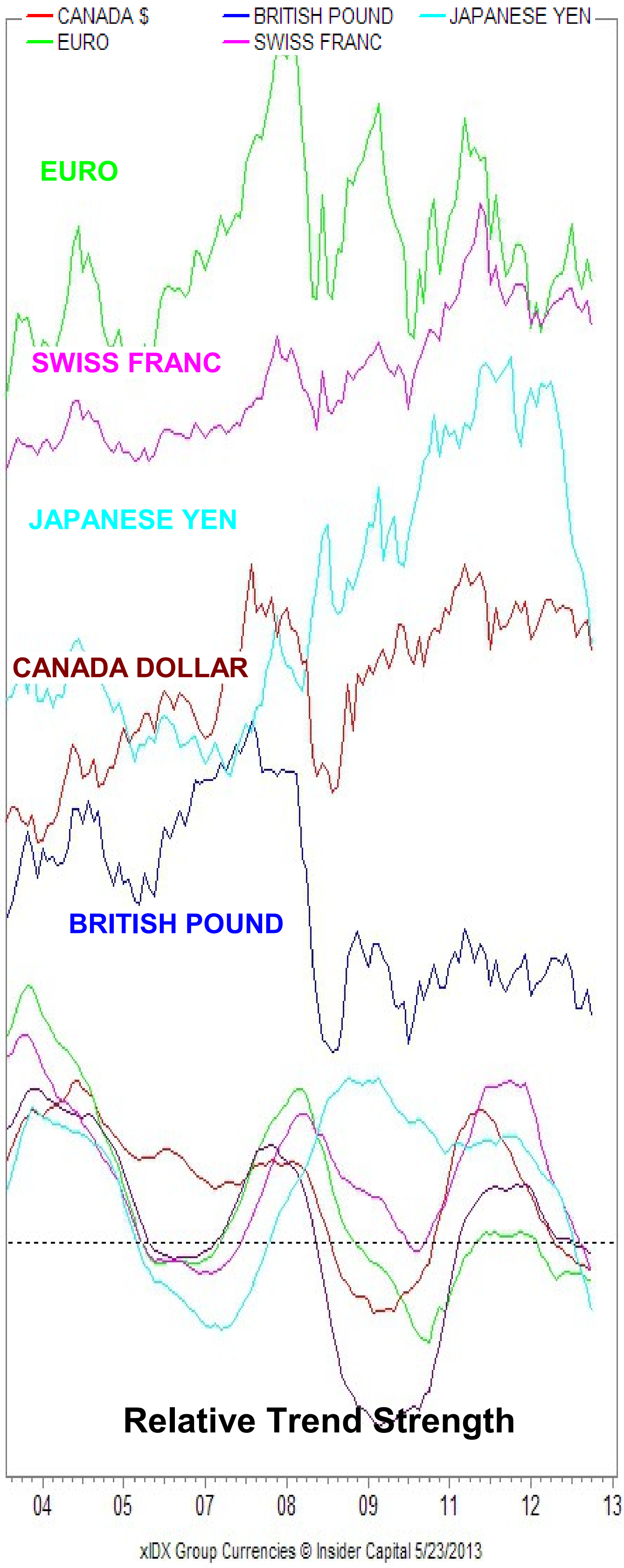
Briese s analysis of commercial hedger positions leads him to believe that commodities in general were fully valued in terms of the fundamentals as of early September 2007. Based on the 24-commodity S&P Goldman Sachs Commodity Index, that would mean about a 30% collapse from present levels. But, he adds, Given the tendency for prices to overshoot, <u>commodity values could be cut in half</u> before they stabilize.

RESULT: By year-end major commodity indexes had plunged between half and two-thirds.

June 19, 2008: One prediction that Epstein refused to print in *Barron's*, was that I expected oil prices to fall to $30. Understandably, Gene thought this prediction so implausible that it would detract from the main points of the article. But *Barron's* was not the only outlet.

I recorded a radio interview with Greenlight Advisors on July 19, 2008, with oil trading at $138 per barrel (and forecasters calling for $250-$300 crude), I predicted a $100+ decline. While the actual interview sound file has been taken down, there was a follow-up article published five months (and minus $103) later, recounting the prediction:

Currency Prices Monthly



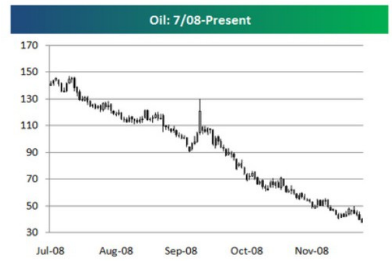
Oil Breaks $35: Commodities Snapshot

Friday, December 19th, 2008

It wasn't that long ago, June 19, 2008, we had a conversation with Stephen Briese, author of the *Committments of Traders Bible* about the imminent bursting of the oil and commodities bubble (200 Days of Oil Supply Held Long by Speculators). That was just weeks before the price of oil (and other commodities) peaked at 147. In that conversation, Briese made the firm statement that oil could drop as low as $30, which is why we are bringing it back to your attention. It was very very hard to believe that it could come true, but here we are. Here is that conversation again:

To Listen, Press Play [MP3] Stephen Briese, CommitmentofTraders.org, June 19, 2008, 9 min. 18 sec.

Oil is trading around $34.71 down $1.51 from yesterday's close, as of the writing of this article.



After *Bullish Review* caught February 2011 copper top, April 2011 silver peak, and simultaneous May 2001 commodity top and dollar bottom, Gene Epstein published the following:

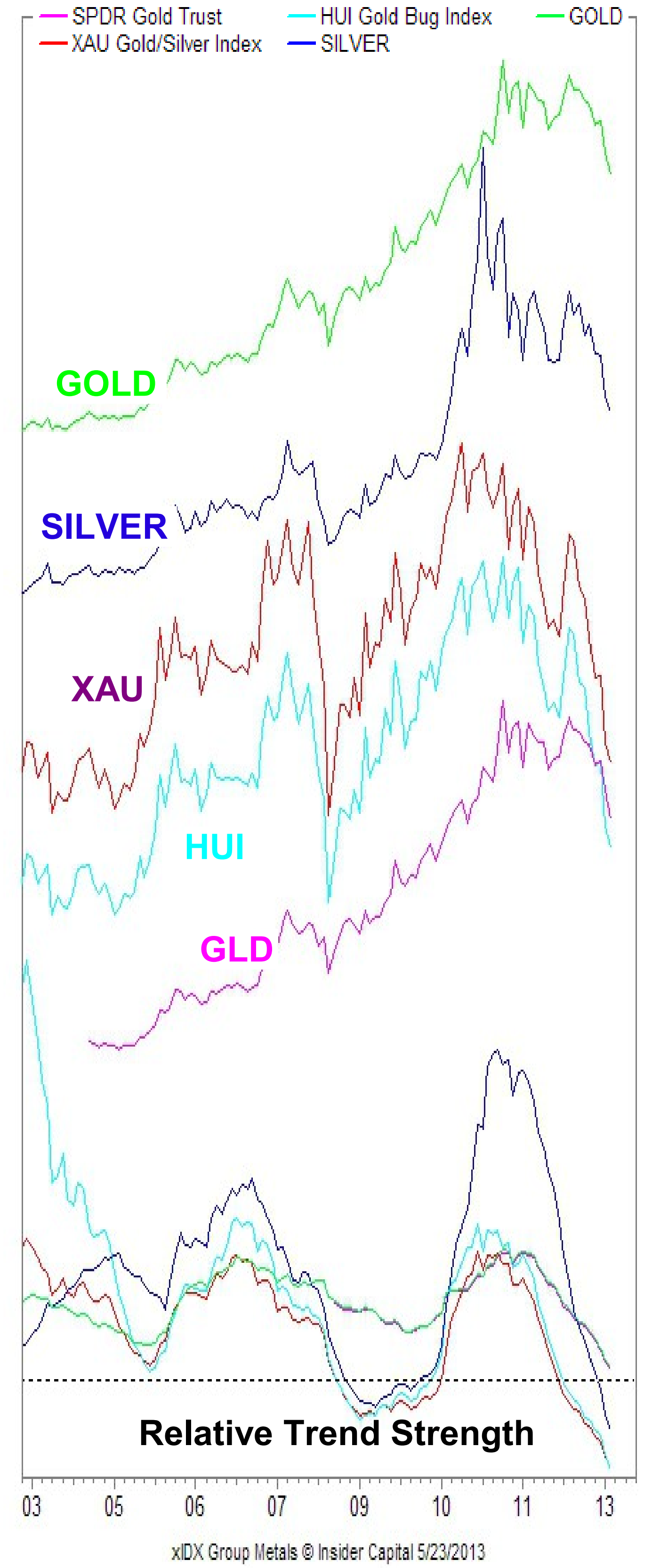
Sept. 2, 2011 *Barron's:* Why Gold May Take A Breather: *One such bear is Steve Briese, publisher of the Bullish Review of Commodity Insiders newsletter and Website. Having strongly recommended long positions in the metal early this year, Briese (pronounced breezy), recently put out a virtual S.O.S. to his subscribers. In the Aug. 15 issue of the newsletter, he called the daily gold price chart as close to straight up as you can get without going vertical, and then warned, in uncharacteristically emphatic language: 'These charts always, always, always end with prices going down, down, down for a long, long, long time. Always.'*

BASED ON EXTENSIVE research he did for Barron s about the performance of similar roaring bull markets, which rose and then collapsed, Briese believes a 33% correction from recent highs, to about $1,250, is quite plausible.

[*Editor's note: This plausibility issue keeps coming up. In actuality, the $1,250 price target was Gene's way of not bugging the gold bugs. My target for gold is considerably lower.*]

The purpose of the above review of some historical market calls is not to just to crow, but to provide some background against the unprecedented bullish stories that are accompanying this major stock market top. If you look back to the other tops listed above, you will see equally unfettered bullishness. This is the way of tops.

METALS MONTHLY



You may be asking yourselves, what plausible bearish news could be causing a market reversal. All the recent news has been bullish. Even if a particular release could have a bearish interpretation, the market has treated it as bullish. *Is this not the proverbial bull market feature of climbing a wall of worry?*

Bull markets do not usually end on bad news. They usually end on good to great news; bullish enough to bring the last buyers aboard. Once a bull market runs out of buyers, prices will collapse of their own weight. Wednesday's market action had the markings of just such a final blow-off, with prices quickly reversing and closing on a very weak note.

Markets make news, not the other way around. The bearish news will come out after prices have fallen substantially. Why? Because market pundits are not paid to predict markets, their job is to find the reason why markets are doing what they are doing. Bullish news is the product of, not the cause of a bull market. The same is true for bearish news, which will appear only after the bear trend is apparent to all.

Over the past three issues, I have documented a huge, possibly unprecedented, number of overbought sentiment indicators--each indicating that there were almost no bears remaining and enormous risk to market longs:

CBOE Put/Call Ratio, AAII Bull Ratio, Investors Intelligence Bullish Ratio, NAAIM Survey, NYSE New High / New Low, and VIX, Market Vane's Bullish Consensus, Credit Suisse SPX puts-vs-calls-based Fear Barometer , TrimTabs equity inflows, The point and figure based S&P Bullish Percent Index (not to be confused with *Bullish Review*), NYSE margin debt, NAAIM professional money manager survey, stock buy-backs, corporate insider selling, Hulbert ratio of market letter bulls, BofA Bull and Bear Index, and my own COT indicators. That makes sixteen sentiment indexes that have been screaming market top.

Why expect more than a normal correction?

1. This degree of bullish sentiment, among the public and professional traders alike, only occurs at major market peaks.

2. The NYSE margin debt is within a whisker

ETCETERA

of the all-time high, set in 2007. When prices turn down, forced margin calls pressure prices, begetting a vicious circle of successive waves of price declines and more margin calls.

3. In futures, trend-following hedge funds are holding a near record net long position. At close to 95% leveraged, these positions will be the first margins to be called.

4. To put it bluntly, the Fed has spent its wad. With interest rates already bumping up against the zero boundary, and having already cornered the market in bonds, Bernanke and company do not have the gas to levitate equity prices.

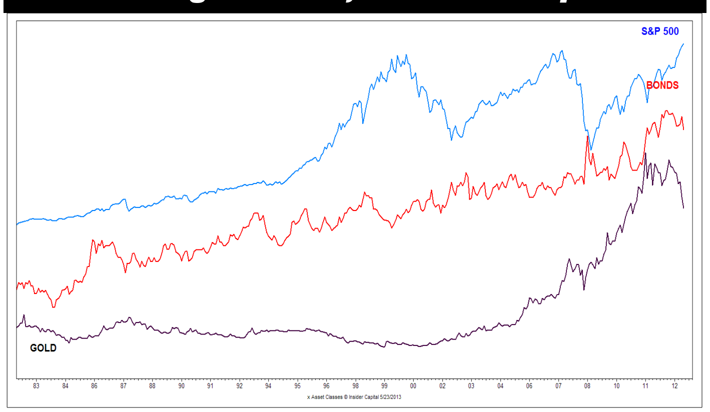
5. As I detailed in the May issue, the Treasury is no position to loan cash will-nilly as it did in 2008. Meanwhile the too-big-to-fail banks remain at risk, while holding an even larger share of the economy than before the financial crisis.

6. Most of the rest of the world economies are in worse shape than the US. We can expect most world markets to follow the US down.

Where to flee to safety? The following chart says it all. The normal safe harbors we might expect in a stock market storm are not available. Both Treasurys and gold remain historically overbought along with equities, and are just beginning their deleveraging phases.

I expect one last rally in Treasurys on knee-jerk capital flight from the gold and stock markets. But the zero boundary means Treasury prices have almost no upside range. The downside risk, though, is enormous, awaiting only the bad news so-far masked by the bull market.

Overbought: Gold, Bonds & Equities



RECOMMENDATIONS

The currency chart on page 4 shows across-the-board negative and falling Relative Trend Strength (RTS). This is bullish for the dollar, and bearish for listed foreign currencies. I have detailed the time cycles for the dollar against the euro and Swiss franc in previous issues. The dollar will benefit from positive cycles for the next three years. I expect the dollar to test par against the euro in this time.

The page 5 precious metals chart also shows across-the-board negative and steeply falling RTS. This indicates that the predicted deleveraging is in full swing, but it has a long, long, long, way to go. Gold is NOT going to provide a safe haven during the coming turmoil. If you have not already--and I have been badgering you since September 2011 to do so--liquidate and go to cash.

Bonds confuse investors. They are told that bonds are the safe investment for conservative investors and retirees. THIS IS BUNK. Bonds are just like any other asset class. They should be bought low and sold high. If you bought them low in 1981, you could have enjoyed 30 years double-digit returns with the security of knowing that you could liquidate into rising prices, if necessary. If you hold bonds now, you will be stuck with your current return while carrying a rising risk of default.

You should use any Treasury rally to liquidate or hedge bond positions (of any type, not just Treasurys). There is no upside to holding bonds, and the downside risk is enormous once Fed market disruption ends, as it must sometime. Fed manipulation is the only reason that bond prices have not already begun the down phase of their long cycle. This time <u>is</u> different.

Traders have many shorting opportunities, as an unprecedented joint deleveraging in stocks, bonds, and gold unfolds. Investors should be in cash--90-day Treasurys or FDIC insured bank accounts. To gain a higher return, I have no argument with FDIC insured CD's for up to a 3-year term. In three years, you will want cash available for long-term investments in then-high-yielding dividend stocks. FDIC insurance rules can be tricky. Check them at www.fdic.gov.