The Stocks Stealth Bull Market Update 2011

Consistently Ahead of the Curve Analysis and Concluding Detailed Forecast Trends

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Financial Markets Analysis & Forecasts

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By Nadeem Walayat

Market Oracle Ltd (http://www.marketoracle.co.uk)

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INTRODUCTION

This ebook continues on from the recent Interest Rate Mega-Trend Ebook that was published barely 2 weeks ago, that answered key questions in terms of economy, inflation and interest rate expectations and implications thereof for the financial markets.

The primary objective of this ebook is to arrive at a detailed trend forecast for the Dow Jones Industrial Averages stock market index into early 2012 (over 9 months) and secondly other major country indices namely the UK FTSE, Russia RTSI, India BSE, and China SSEC. The reason why my analysis is primarily focused on the Dow and not other indices such as the FTSE is because the Dow has been my primary trading vehicle for the past 25 years for a whole host of reasons such as the FTSE only dates back to 1984 whereas the Dow has always had easily obtainable data going back over 120 years.

The analysis in this ebook further seeks to bust a number of stock market myths that hardly ever match market price action reality but continue to be perpetuated in the mainstream financial press, so I won't hold any punches and promise to leave the reader with plenty of food for thought.

Whilst this analysis attempts to accurately project a road map trend for the Dow for the whole of 2011, however readers should ensure that they read my regular in-depth updates on the Dow trend expectations (approximately every 2-3 months) which are emailed out and also at walayatstreet.com

Readers can add their comments on this analysis at the end of the condensed web published article - http://www.marketoracle.co.uk/Article27334.html

My next planned ebook's that I aim to complete during 2011 in order are: .

- UK House Prices Forecast - *June 2011* - An in depth analysis of the UK Housing Market which will conclude in a trend forecast into at least 2013 that follows on from the highly accurate UK housing market analysis such as that of August 2007 that called for a 2 year bear market into August 2009 (UK Housing Market Crash of 2007 - 2008 and Steps to Protect Your Wealth).
- The Real Secrets of Successful Trading - *December 2011* - Detailed breakdown with examples of my stock index focused trading methodology.

Your stocks stealth bull market trading analyst.

Nadeem Walayat
31st March 2011

Why a Stocks Stealth Bull Market?

The reason why the bull market in stocks remains a STEALTH bull market is because it has been missed by most, only a few have ridden and profited from it since its birth 2 years ago as it continues to be predominantly referred to by the financial press and BlogosFear as a "bear market rally" who's end is envisaged ON EVERY correction, and I don't even need to go looking for such commentary because my email in box is literally full of such adamant conclusions, for instance only the other week an email from a prominent mainstream financial magazine was titled ***"The bull market is over – we're in a bear market now***", which was at virtually the exact point that the correction ended.

The bottom line is that much of the analysis that you read in the financial press and blogosfear is not analysis at all, but rather propaganda in support of a pre-existing conclusion which is therefore following a completely irrational thought process which is why whole bull and bear markets can not only be missed but consistently bet against.

2009 - Birth of the Stocks Stealth Bull Market

For stock market Investors and traders there were two key events during the year.

1. The Stocks Bear Market Bottom of early March 2009 (Dow 6470).
2. The birth of the Stocks Stealth Bull Market that saw many indices soar by more than 60% over the next 9 months.

The primary purpose of analysis is to generate market scenario's that have a high probability of success for the primary purpose of monetizing on these trends that are usually contrary to the consensus view.

In this regard the stock market bottom of early March fulfills this as the whole subsequent rally has been called by the vast majority of analysts across the board a bear market rally to SELL into, virtually every correction has been followed by calls that the market has topped and the resumption of bear market lows as imminent. The most notable crescendo of the crash is coming calls was during the October correction when widespread commentary spread forth of an imminent crash that AGAIN FAILED to materialise.

Dow Jones Stock Market Forecast 2009 - 20th Jan 2009

Dow Jones Mid 2009 Low 6600 - 70% Confidence; End 2009 at 8,600 (During December 2009) - 65% Confidence

Chart courtesy of StockCharts.com

Stealth Bull Market Follows Stocks Bear Market Bottom at Dow 6,470 - 14th March 2009

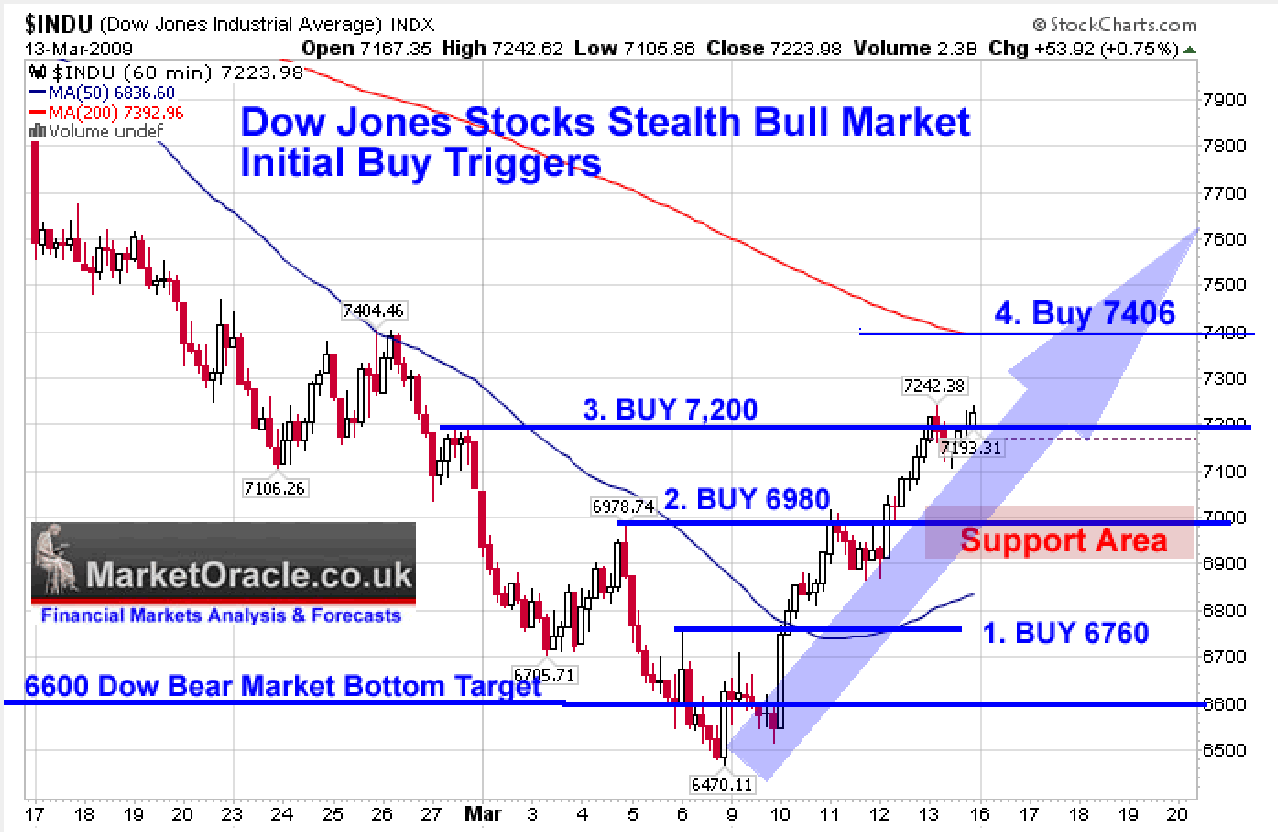


Chart courtesy of StockCharts.com

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 and even beyond, 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 now 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.

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 market manipulators and 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 at near rock bottom prices! Therefore watch for much more continuous commentary of HOW this is BEAR MARKET RALLY THAT IS TO BE SOLD INTO as the Stealth Bull Market gathers steam.

[Stealth Stocks Bull Market, Sell in May and Go Away?](#) - 26th April 2009

Conclusion - Immediate term conflicting analysis, will there be a continuing rally into early May or not ? Clearly early week will be weak and a lot now depends on whether the support of 7,800 holds, the 280 point gap between the last close and support should give the market plenty of swine flu room to breath, it is a tough call but after that early week wobble, I would go with a continuation into early May to set up for the main move which is for the significant correction that targets a decline of about 14% or Dow 7,500 from 8750. If 7800 fails early week that implies Dow 7,100. So just as the herd is starting to pile in the smart money will be positioning for a significant correction and importantly the move will be TRADEABLE, none of these 1 or 2 day falls that have suckered the bears in during the rally, but for a sustained down trend though swine flu may bring this forward to the start of the week. Note this is an interim update, my in depth analysis will attempt to more accurately map out the Dow swings of several months so make sure your [subscribed to my always FREE newsletter](#) to get this on the day of publication.

[Vicious Stocks Stealth Bull Market Eats the Bears Alive!, What's Next?](#) - 23rd July 2009

Chart courtesy of [StockCharts.com](#)

CONCLUSION - My earlier fears about a bull trap appear to be unfounded, the stock chart is talking that we are in a stocks bull market, and is suggestive of a trend higher towards a 2009 target of between 9750 and 10,000, with a high probability that we may get there before the end of October!. Key danger areas for this scenario are a. for the trend line to contain corrections, and b. that 8080, MUST HOLD.

The Crumbliest Flakiest Stocks Bull Market Never Tasted Before - 7th Sept 09

Chart courtesy of StockCharts.com

The target for the termination of the current phase of the bull market rally was between 9750 and 10,000. As mentioned above, I am not expecting an easy ride for the fifth wave as clearly it is an obvious pattern to interpret following waves 1,2,3,4. What does this mean ? Well wave 3 is screaming weakness, so that suggests a weak push higher rather than something that resembles wave 1.

Stocks Bull Market Correction Continues, U.S. Dollar Bears Running Out of Time? - 4th Oct 09

Stocks Bull Market Forecast Update Into Year End - 2nd Nov 09

There is nothing to suggest at this point in time that the stocks bull market is over which means that that corrections are for accumulating into, the overall trend is for stocks is to continue climbing a wall of worry whilst investors are scared by the vocal crash is coming crowd that will continue to re-write history to always be right in hindsight to again come out with more crash calls over the next few months as the Dow chart of the 1930's gets it's start / end date manipulated again so as to fit fresh crash calls.

The stocks bull market that has raged since the March low has fulfilled the original objective for a 50% advance, therefore upside for the next two months looks limited with greater risk of downside in the coming weeks though pending a break of the major support trendline which implies a rally in the immediate future. All in all this is suggestive of a downtrend towards 9,400 into Mid November with a year end rally to back above 10,000 targeting a rally high in the region of 10,350 to 10,500 during December.

Stock Market Santa Rally and Election Weapons of Mass Deception - 13th Dec 09

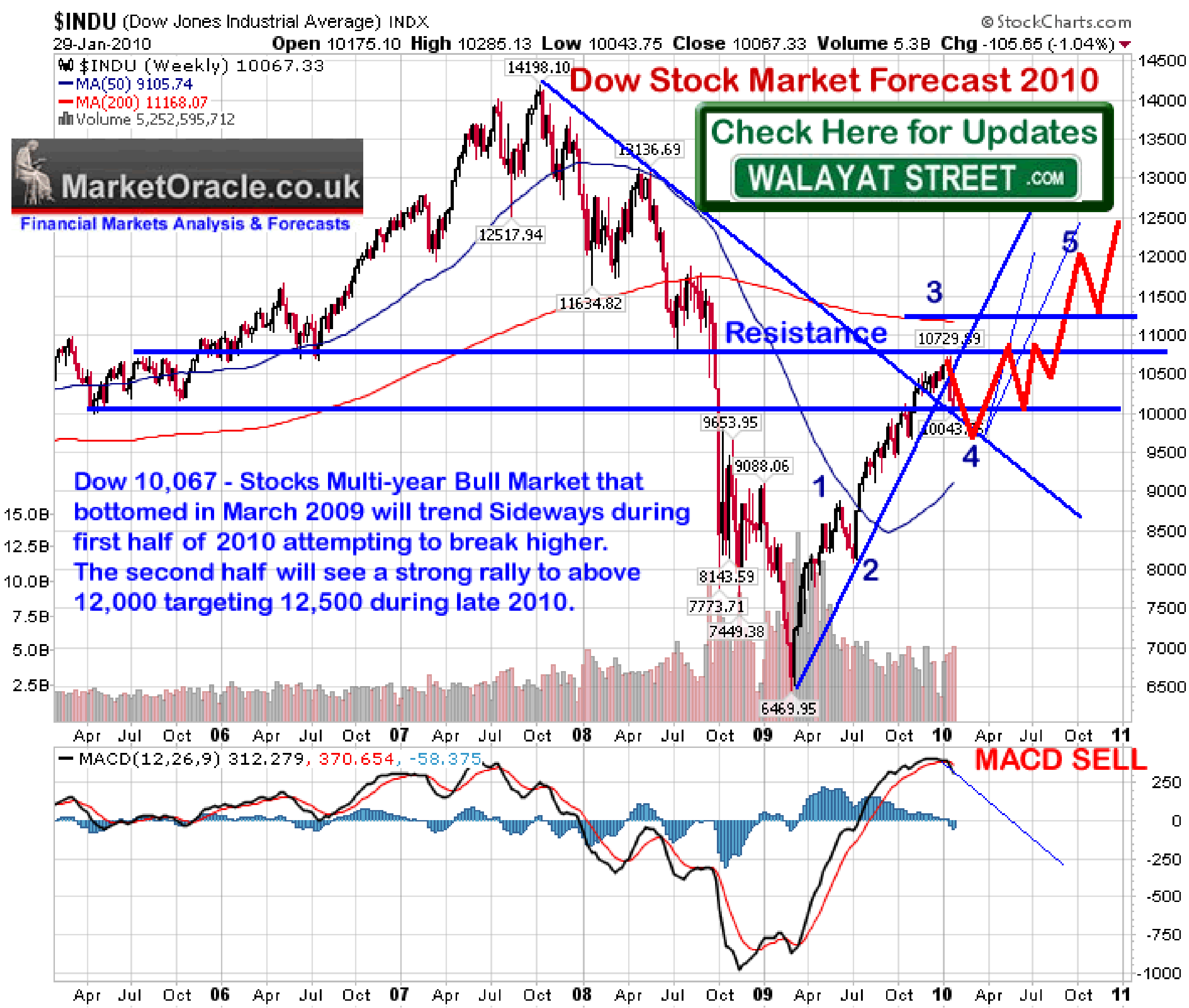
My concluding thought, we get the santa rally to a new 2009 high for the Dow into the last few days of December and then the market starts the significant correction.

2010 - Bull Market Consolidates and Targets Dow 12,000

2010 was the year for stock market consolidation with an upward bias, which has repeatedly given the bears plenty of rope to hang themselves with. During 2010 I published 4 in depth stock market analysis and concluding forecast trends:

1.... 02 Feb 2010 - [Stocks Stealth Bull Market Trend Forecast For 2010](#) - The Inflation Mega-Trend Ebook Page 82 ([FREE DOWNLOAD](#))

> *Dow 10,067 - Stocks Multi-year Bull Market that bottomed in March 2009 will trend Sideways during first half of 2010 attempting to break higher. The second half will see a strong rally to above 12,000 targeting 12,500 during late 2010.*



2... 23 Mar 2010 - [Stocks Stealth Bull Market Trend Forecast Into May 2010]()

Dow (DJIA) March to May Stock Market Trend Forecast Conclusion - Therefore my specific conclusion is for a continuation of the uptrend into early to mid May, achieving the 12,000 target during this time period, also allowing for a correction during April.

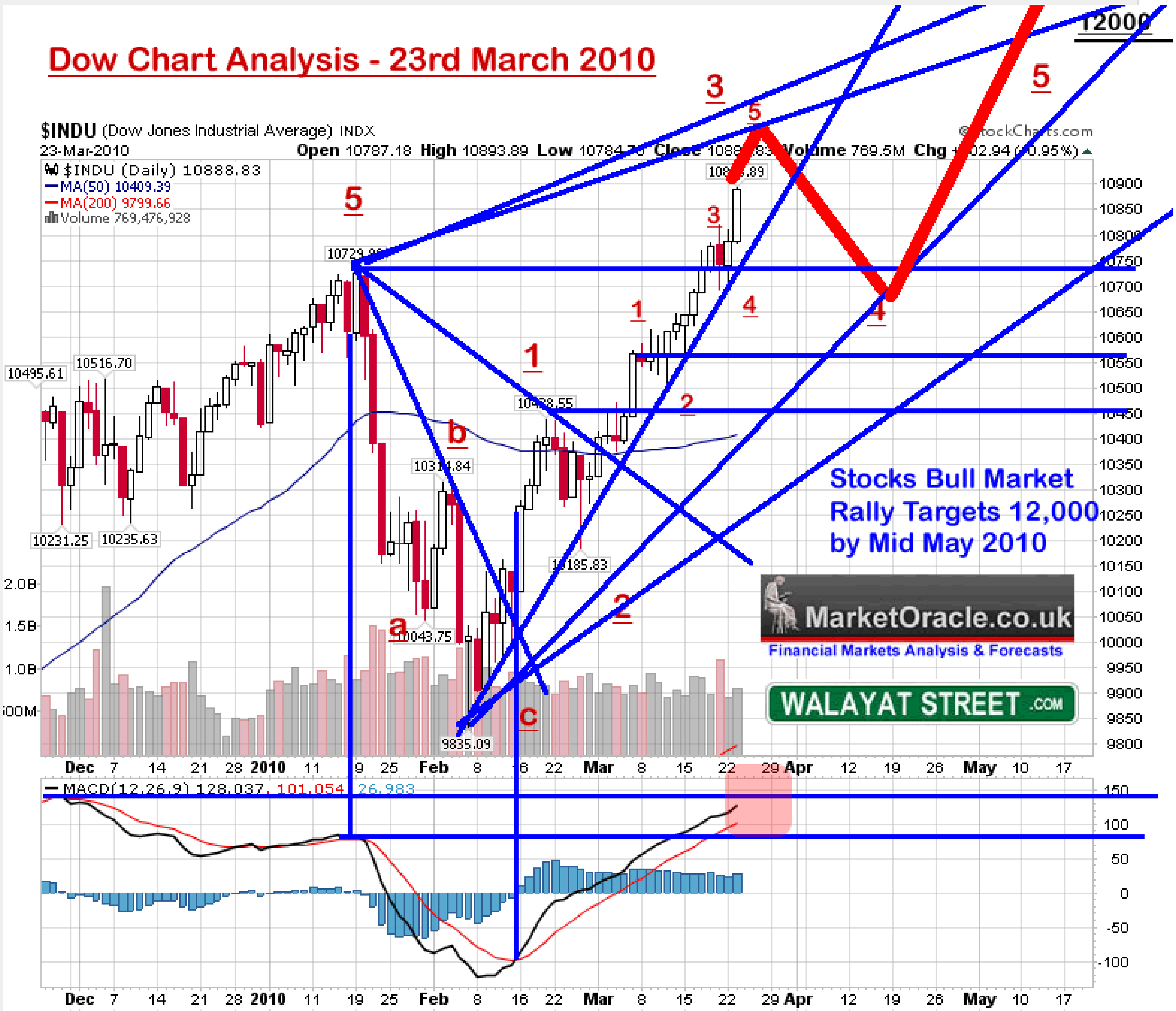
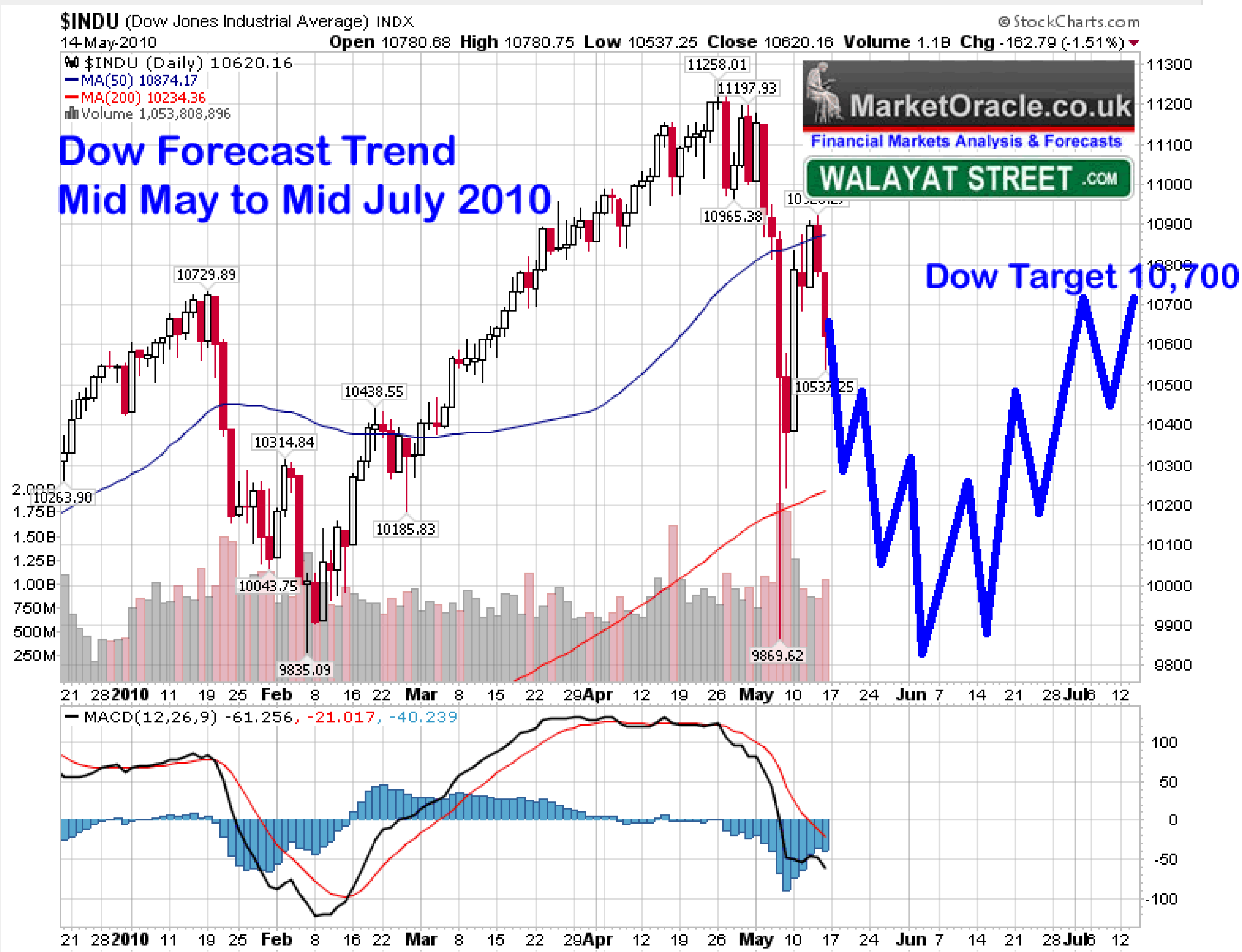


Chart courtesy of [StockCharts.com]()

3... 16 May 2010 - [Stocks Bull Market Hits Eurozone Debt Crisis Brick Wall, Forecast Into July 2010]

This correction could last for several months and may extend all the way into early October, which suggests that the next 2 months are going to see an ABC correction to be followed by a sideways price action between the extremes of 10,900 to 9,800 and so despite continuing wild gyrations I would not be surprised if the Dow is little changed from its last closing price of 10,620 in 2 months time (16th July 2010). Expectations remain for the bull market to resume its trend towards a target of between 12k to 12.5k by late 2010 after the tumultuous trading period over the next few weeks. I have tried to illustrate a more precise Dow forecast projection in the below graph, reality will probably end up being far more volatile.



4... 18 Oct 2010 - [Stocks Stealth Bull Market Dow Trend Forecast into Jan 2011]

STOCK MARKET FORECAST FINAL CONCLUSION

Everything appears to be in synch! All of the above (and linked) analysis together lead me to the following trend conclusion for the stock market as measured by the DJIA30 index - The Stock market is heading for an imminent correction which means it may not be able to reach resistance at 11,250 before correcting which targets a trend to 10,700-10,500 by mid November, that I expect to resolve in an uptrend into January 2011 that targets Dow 12,000 as illustrated by the below graph, and therefore confirms the original forecast target for the Dow as of January 2010. Also an interim analysis for 2011 suggests that the Bull run could continue into May/June 2011.

Chart courtesy of [StockCharts.com]

Interim Update - 31 Jan 2011 - [Dow Jones Stock Market Index Reverses at 12,000 Target]

The Stock market to large extent achieved its trend expectations for 2010 including the target to hit 12,000 during late January 2011, that signaled that a significant correction was imminent to target a drop of approx 10%.

Bear Market Rally Mantra Repeatedly Busted

Weekly interim updates during the summer mapped out the swings within the trading range, as the Dow prepared to break above the upper end of its trading range of 10,700. Whilst heavily bearish media and BlogosFear commentary raged during the summer months that morphed from the always imminent another flash crash into June and July's Bearish Head and Shoulders price pattern, into August's imminent Hindenberg Omen Crash month, and soon replaced during September by repetitive warnings that September could be the worst month of the year on the basis of statistics and deflation when it turned out to be the BEST September for over 70 years!

(05 Sep 2010 - Inflation Mega-Trend Long-term Growth Spiral Continues to Drive Stock Market Trend)

***Bottom Line** - Nothing new to report short-term the Dow remains in a corrective trading range of approx 10,700 to 10,000. Everybody tells you that September is usually one of the the worst months for stocks. I say its in a range with probability favouring a break higher.*

The Head and Shoulders Propaganda Pattern

Propaganda over analysis was never more evident than in the oft claimed for Head and Shoulders reversal pattern that during the whole of the summer correction pumped out warnings to investors that the H&S pattern implied that the stocks bear market resumption was always imminent, the below graph illustrates how the right shoulder mutated hunch bank of notre dame style all the way into October, and will likely continue to do so all the way to new bull market peaks.

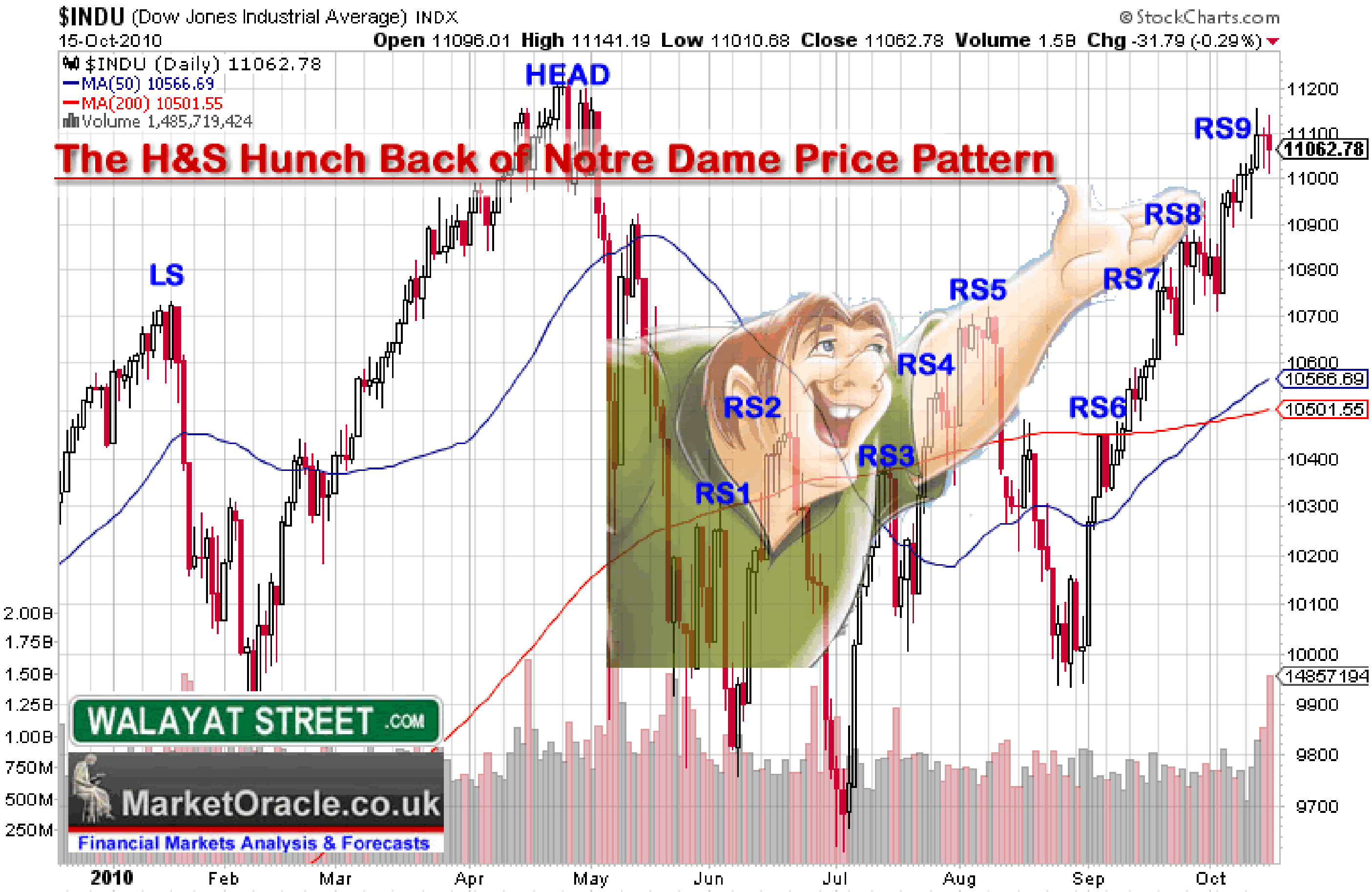
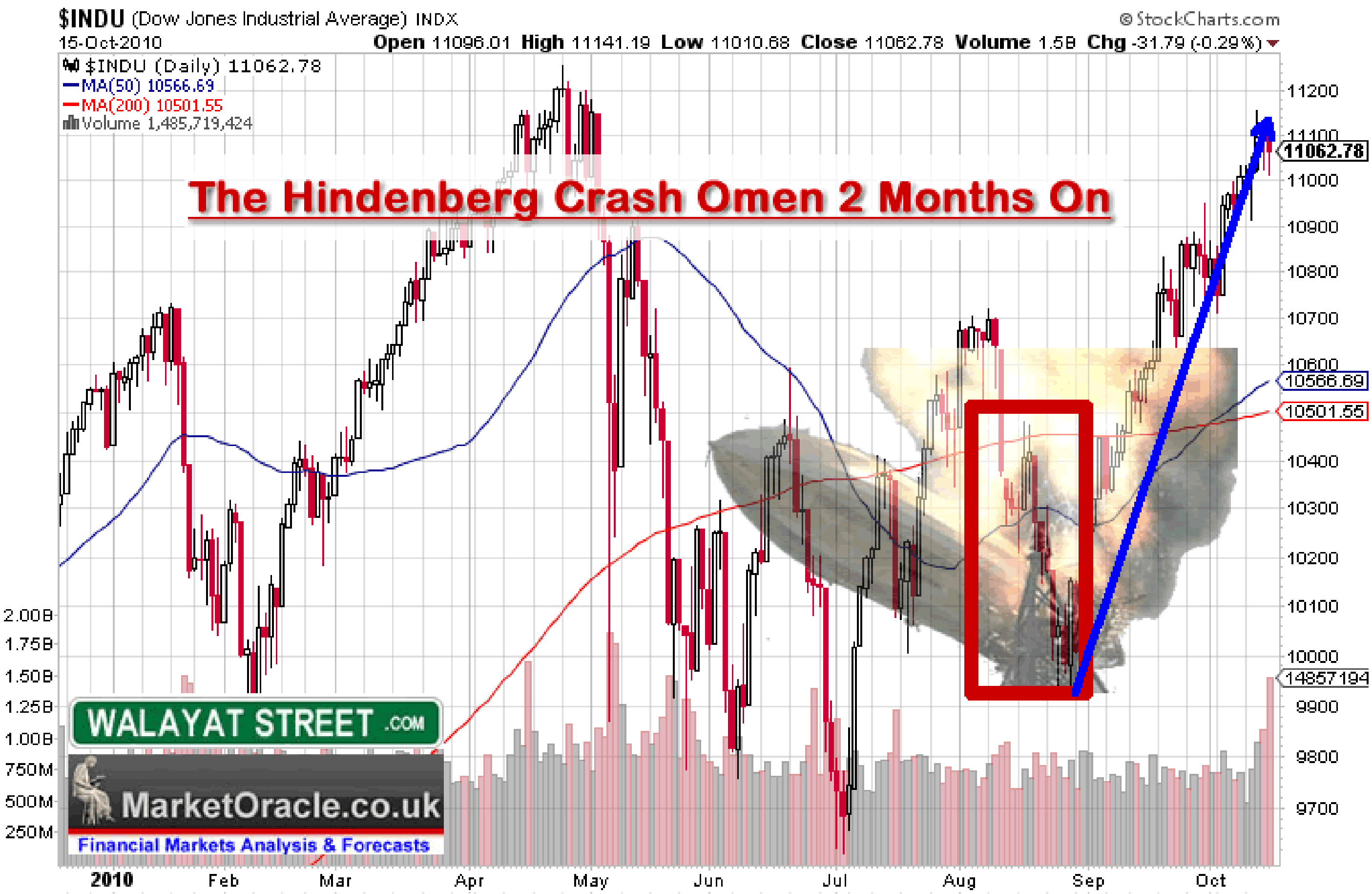


Chart courtesy of StockCharts.com

The Bottom line is that the mainstream press is 99% propaganda, and the blogosFear approximately 90% propaganda, which leads me to believe that no one in the mainstream press ever puts their money on the line and thus perpetuate delusions forever until amnesia is required to switch positions months if not years after the event, just as deflationary deflationists will eventually be forced switch to having been Inflationists all along, which also appears to hold true for approx 90% of the BlogosFear.

Hindenberg Crash Omen Proved to be the Summers Best Contrary Indicator!

The whole of August witnessed a crescendo of imminent stock market crash commentary right across the media including Barons, Bloomberg and the Financial Times on the basis of the 'Hindenberg Omen' signal, which reached its greatest intensity just as the stock market bottomed during late August 2010.



22 Aug 2010 - [The Hindenburg Stock Market Omen Doomed to Crash and Burn?]() - Dow 10,205

> *The problem I see with the Hindenberg Omen and its kind is that it is too easy to generate a back fitting indicator that perfectly calls every top or bottom in hindsight but going forward requires constant revisions to make the indicator fit onto future price action, which basically means you have a 50/50 chance (or less) of the indicator going forward producing the outcome that it purports to forecast, as each time it fails the indicator is changed to allow for the reason as to why it failed which basically means fewer and fewer occurrences which does NOT mean that it becomes more accurate rather more accurately fitting the data in hindsight.*

> *The facts are that the main proponents of the Hindenburg Omen have been WRONG throughout the WHOLE Bull market from its birth in March 2009 and subsequent 18 month trend, the perma-bears each month jump from indicator to indicator (In June and July the Head and Shoulders pattern was all the rage) all the while hoping all the past investment account busting wrong calls have been forgotten as they wait to eventually be right, even a broken clock is right twice a day.*

29 Aug 2010 - Stocks Fail to Follow Crash Script - Dow 10,150

> *Did the stock market crash Monday ? Nope, Tuesday ? Nope. How about Wednesday, Thursday or Friday ? The Dow closed down 63 points on the week at 10,150 (10,213) which given the much publicised Hindenburg Crash Omen, is not exactly following the script though off course the Hindenburg Omen has plenty of get out of jail cards in the small print which ensures that all eventualities are covered.*

> *A quick chart analysis shows that the break below 10,000 was not particularly healthy, and Fridays rally has yet to trigger any reversal higher, it would be an easier market to determine at this point in time if it had breached the downtrend line and closed above 10,200. The Dow is going to need to rally next week by trading back above 10,200. Okay, I am going to go with a rally early next week that breaks above 10,200 which would be inline with the existing scenario that suggests the trend pattern should now be for an assault on and break above Dow 10,700, which would confirm the higher high and generate a higher low that would target the bull market peak.*

Economy & Inflation Conclusions Applied to the Stock Market

The in depth economic analysis contained within the 85 page Interest Mega-Trend Ebook (March 2011) whilst focused on the UK economy can be applied to the US economy in terms of the US showing relative strength in all key aspects against the UK in terms of experiencing a higher growth rate, lower inflation rate and lower market interest rates.

The Cancer of Socialism Infecting the United States

Chronic economic under performance by much of Europe as most notably illustrated by the bankrupting PIIGS is as a consequence of socialism, where the greater the degrees of socialism implemented the greater the economic under performance observed, where governments rely upon unsustainable inflationary deficit spending, money printing to give the illusion of temporary prosperity as a consequence of socialist policies that always eventually bankrupt economies.

in Britain the new Tory led coalition government is attempting to cut out the cancer of socialism through means of deep spending cuts and tax rises, but the socialism cancer spread for Britain may already have become terminal.

Unfortunately the United states during the past 10 years has increasingly accelerated along the socialist route for not only the masses but the super rich as well in the form of a series of bankster bailouts known as TARP and QE.

Socialism is KILLING the work ethic, it destroys capitalism driven competition that generates economic growth, it turns workers into lazy benefit claimers, people who are not willing to work for the market driven wage but for some fantasy land pay figure that the market will not bear, thus artificially high unemployment rules where just as is the case in the UK large swathes of housing estates full of those immersed in the benefits culture and who over time lose the ability to work but instead proceed to suck productive life blood of the economy, as those that work are forced to increasingly pay ever higher taxes for those that either choose not to work or are employed in mostly un productive debt fuelled government work programme's.

Meanwhile the lack of socialism in of all places such as communist China where capitalism driven competition is generating growth of 10% per annum.

The welfare / benefit states need to be cut back drastically else Britain and the US will soon be where the European Bankrupting PIIGS are today.

Have we learned nothing from the soviet experience of socialism ?

Where the shops were near always empty with long queues and workers worked for worthless fiat currency, producing goods no one wanted to buy under government supply dictats.

Socialism is just as dangerous as any other religion (with their self filling armageddon prophecies) that will destroy societies that it professes to save and therefore just as religions have been banned from the interfering in the governance of secular western societies (that many Muslim countries are only now starting realise), then so should the religion of socialism be banned before it destroys said societies.

To save countries such as the United States and Britain from terminal ACCELERATING decline we need to promote competition driven capitalism, which means promoting the work ethic, savings and entrepreneurship in the general population and limit the size and scope of government, else ever escalating socialist debt will ensure that we will become just the latest to join a long list of banana republics, to whom no one in the world will want to listen to what we once were, rather look down upon us at what we have let ourselves become, fat, lazy, good for nothing benefit scroungers looking for economic scraps thrown to us in the form of foreign aid from the new economic super powers in predominantly the east.

Economy - The UK economy is expected grow by 1.3% this year as economic austerity in the form of huge tax rises and spending cuts (even if not totally implemented) bite hard, whereas there is little sign of real austerity in the US i.e. UK plans to cut its budget by 20% whereas the US plan is for an inconsequential 1%, that does not sound like much in terms of planned austerity never mind actual austerity that will materialise. Thus, coupled with stronger fundamentals implies a far higher GDP growth of at least twice the UK rate, and thus in the region of 2.8% - 3.5% for 2011 (take not double dippers your going to be wrong for another year!).

CPI Inflation - UK CPI inflation has already busted above 4% enroute towards 5% having spent virtually the whole of 2010 above the Bank of England's upper inflation limit, I continue to expect the US to play catchup to the UK in inflation terms, which suggests US CPI inflation breaking above 3% this year, without doing in-depth analysis I cannot say how high it could spike to but a peak of 1.5% to 2% below the UK inflation peak rate is highly probable which on the most recent UK inflation data suggests 3% to 3.5% which is set against the most recent US CPI rate of 2.1%.

Meanwhile all central banks, including the Fed will continue with the deflation threat economic propaganda (aided by clueless academics with fancy titles such as Professor of blah blah University that the mainstream press panders to which then gets regurgitated at length by the blogosfear) much as the Bank of England has done for the whole of 2010 and into 2011 that deflation was always imminent and inflation would soon fall, which looks set to be replicated in the US during 2011 as the Fed focuses on the likes of lower core inflation that excludes food and energy costs because off course, just as is the case in the UK, everyone has stopped feeding and heating themselves thus the clueless and vested interests play the game of ignore anything that actually rises in price whilst focus on anything that has fallen, such as plasma tv's, ignoring the fact that people are prioritising their consumption on the necessities rather than luxuries.

The bottom line is that the US just like the UK is on a long-term trend of a stealth debt default by means of high real inflation the price for which is being paid for by all workers and savers as the purchasing power of their earnings and life accumulated savings erodes in value. Yes the US has the reserve currency advantage but as illustrated above it is burning its currency at a faster pace than the UK, which means the US is steadily losing its reserve currency advantage, so both countries are skipping along, hand in hand towards the hyperinflation cliff, when ? Not this year or next, but we'll definitely get there ..... together! So prepare and plan your finances ahead now, rather than be forced to do so at great real terms loss later on (See Inflation and Interest Rate Mega-Trend ebook's).

U.S. Debt - The United States mushrooming debt mountain is feeding the global inflation mega-trend as the consequences of rampant U.S. money printing spills over into economies across the world in the form of global capital flows pushing up asset, commodity and consumer prices.

Unfortunately most of the US population appears blind to the consequences of soaring public debt and liabilities (just like the UK population was under the last labour government). There is no free lunch, and the price for debt won't be paid by future generations but today's generation as the markets do not wait for children to be born, grow up and take up the debt servicing mantle but react in the present on the prospects for future default real or stealth (inflation) which is why each year U.S. workers are becoming poorer in real-terms.

Everything I have iterated at length in the Inflation Mega-trend and Interest Rate Mega-trend ebook's for the UK population holds just as true for the US population that I can boil down to just one sentence (pardon my language) " The middle class of America is well and truly fu*&ed"

Your congress / government is a near total fraud! Virtually ALL U.S. politicians are in the back pockets of the bankster elite as evidence by the fact that no bankster has been held to account for their crimes against the american people. Instead they soon reverted to their old ways of paying bonuses on fictitious tax payer funded profits that they in part funnel to their co-conspirators in Congress.

Instead, you the people are being forced to pay for the bankster's crimes in the form of real terms loss of purchasing power of earnings and life time accumulated savings which implies financial slavery. As individuals you first need to free yourself from the system of debt slavery by NOT partaking in it, by NOT borrowing money. Yes I realise such a notion is difficult to accept when you have been effectively brainwashed your whole life by the advertising industry and mainstream press (that is little different) that has basically been telling you its good to become a debt slave for life so that a large part of your life is spent working for your debt slave masters as you service your debt.

Interest Rates - The Bank of England is hell bent on attempting to keep UK interest rates as low as possible for as long as possible out of fear of financial armageddon, however inflation has already been high in the UK for over a year and so I expect the Bank of England to announce 1 or 2 token interest rates hikes. Whereas the US is only just starting to experience inflation above CPI 2% which gives the Fed breathing space to continue pumping out economic propaganda to delay a rise in interest rates for probably the whole of 2011.

However as is the case for the UK, and despite the Feds best efforts of deploying Q.E. to monetize U.S. debt (buy treasury bonds), US market interest rates can be expected to trend higher across the yield curve as the yield curve gradually flattens out as usually occurs during multi-year bull markets.

Therefore the time line for interest rate rises remains as per the Interest Rate Mega-Trend Ebook : The Euro-zone with the Germans in charge of the ECB (ever fearful of hyperinflation) will be first to raise rates, possibly as early as April, and then the UK in probably June or July, with lastly the US probably staying on hold until 2012 as the Fed continues to play the core inflation smoke and mirrors game with the public.

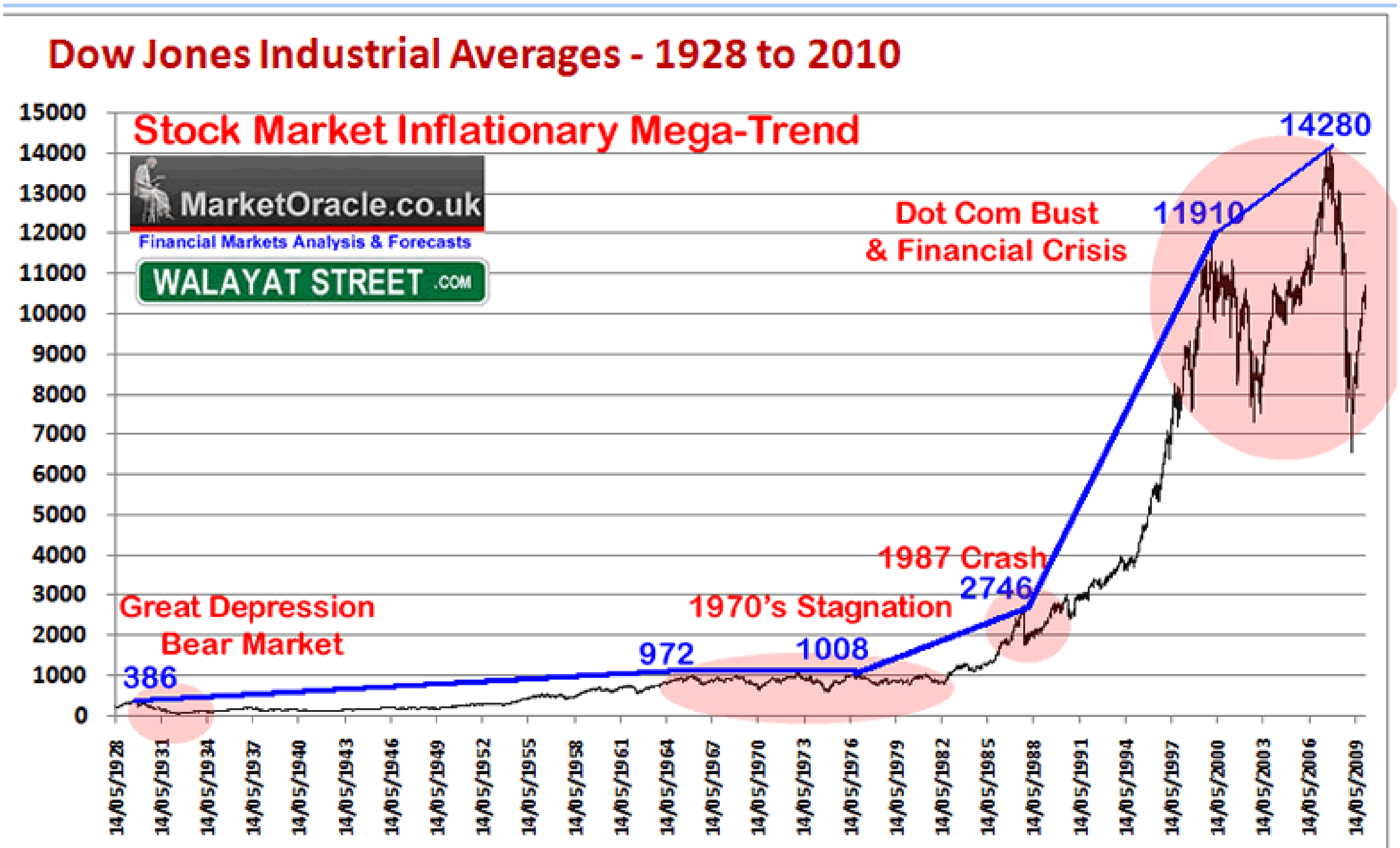
Implications for the Stock Market - The US is going to grow relatively strongly during 2011 that will surprise the doom merchants, and especially when compared against most western economies, coupled with a relatively mild trend for rising inflation and probably no Fed rate rise during 2011 and a milder rise in US market interest rates. All of which are supportive of the US stock market for the whole of 2011, with the the Dow Jones Industrial Averages expected to show relative strength against other country indices, especially as many of its components also benefit hugely from the emerging markets for revenues and profits that are magnified by the falling dollar.

What if the Fed raises rates during 2012 ?

Well, even though I don't expect the Fed to raise rates, however the risk factors for market forced rate rises definitely exist such a dollar / bond market slump, so if the Fed should act this could result in a sharp drop in the stock market on what would be a panic event. However, this will NOT result in a change to the bull market trend but rather represent another buying opportunity to accumulate into the correction.

Stock Market Mega-Inflationary Trend

This analysis is an updated insert from the January 2010 Inflation Mega-Trend Ebook



The Above graph illustrates the stock market inflationary mega-trend or growth spiral which basically implies that the further a general stock market index such as the Dow, S&P or FTSE deviates from its peak in terms of price and time, then the greater the long-term potential it presents for investors. Which highlights why the early 2009 stock market plunge into the March lows was literally a once in a life time buying opportunity, as I warned investors to prepare towards in October 2008 - Stocks Bear Market Long-term Investing Strategy

Whilst I don't like to transpose past price action onto the present as it is not reliable, however I do recall at the time of the rally off of the 1991 decline everyone had their eyeballs fixated on the 1987 crash lows as though they would be revisited, when in fact it was another great buying opportunity as the subsequent price action illustrated. All you folks may not realise this now but the period from 1991 to 1996 was ALL followed by perpetual extremely bearish commentary of the end is nigh. Few BOUGHT that stocks rally! Even Greenspan appeared to play the bearish card at about Dow 6,000 with his famous Irrational exuberance speech towards the end of 2006 to frighten and keep most retail investors out of the market that would only return towards the end of the dot com boom. The Dow doubled from 1996 to 2000.

Where do we stand today ? Well we have not even reached the stage that demands another Irrational Exuberance speech. Despite 2 years or rising prices we remain in an overall bearish commentary phase that frightens and keeps all but the smartest money out of the market much as the occurred during the post 1987 crash rally, and much as occurred from 1991 to 2006. Presently this commentary appears as an avalanche of bearishness on EVERY correction, the consequences of which is reflected in the volume data that shows most people are NOT buying the rally, which is why I originally termed this as the birth of a stealth stocks bull market back in March 2009.

What we are witnessing today is pretty much similar behaviour that I suspect will persist for many more years! whilst the bull market rages on!

As for 2011, the Dow is a long way from reaching an overbought / expensive state in terms of the mega-trend, therefore 12k still presents a good long-term accumulation level.

Rising Interest Rates Implications for the Stock Market

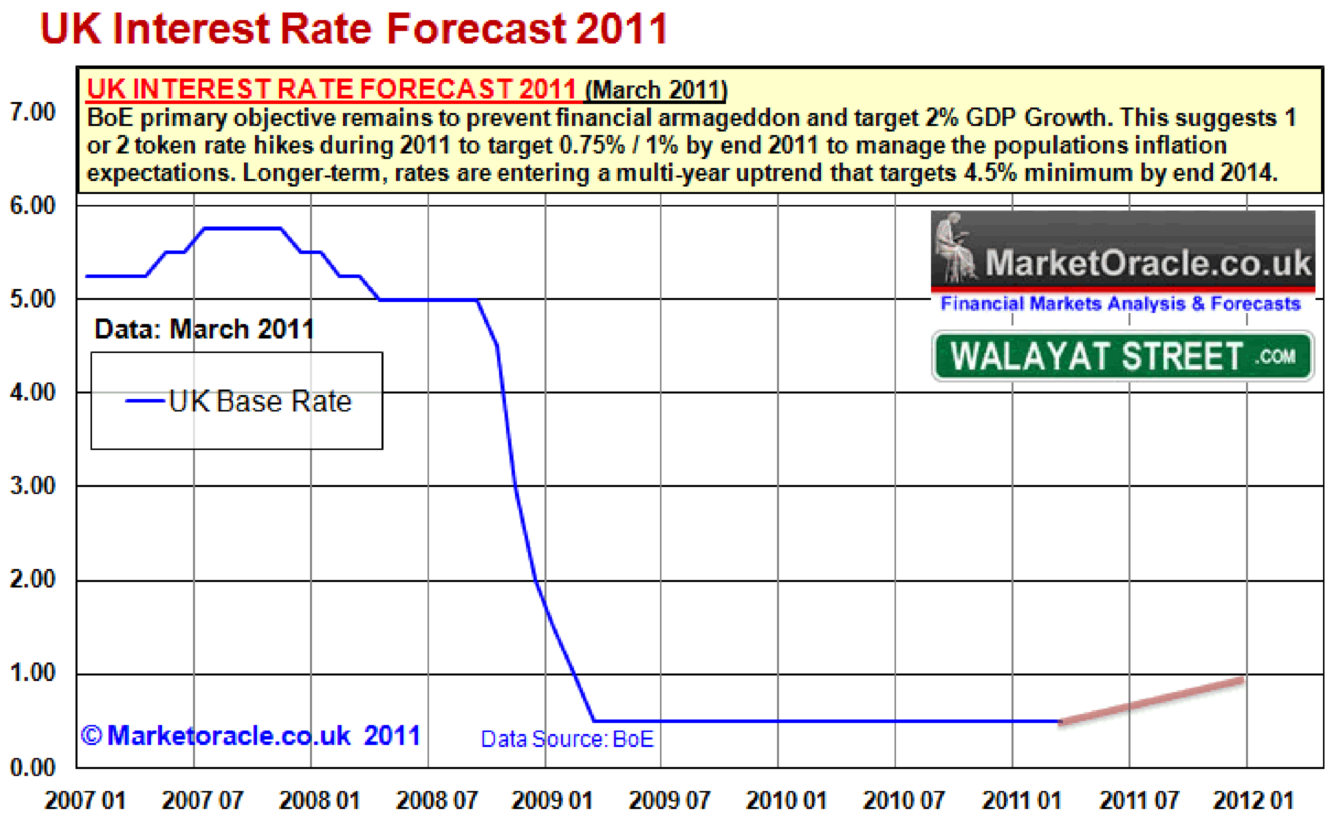
The consensus view as continuously pumped out in the mainstream financial press and further regurgitated at length in the blogosfear is that rising interest rates will negatively impact upon stock price trends due to higher yielding bonds competing against stock dividend yields as well as acting to suppress economic activity and therefore corporate earnings growth.

However much of this consensus view is perpetuated by highly public perma-bears who have consistently wrongly called for the demise of the stocks bull market of the past 2 years, as they continue to call for an always imminent end of the so called 'bear market rally' despite the fact that the past 2 years has witnessed one of the greatest bull runs in history.

Therefore increasing prospects for a rise in interest rates from record lows as a consequence of bailing out the bankrupt banking sector has prompted the perma-bears to perpetuate the consensus view that rising interest rates will be bad for the stock market which this analysis seeks address.

Interest Rate Trend Forecast

My recent in-depth analysis (Interest Rate Mega-Trend Ebook) concluded in the UK's Bank of England acting on only 1 or 2 token rate rises during 2011, as any more would put their bankster brethren under pressure and increase the risk of financial armageddon.



The lengthy interest rate analysis has been condensed into the below matrix

UK interest Rate Forecast 2011 Matrix (5th March 2011)

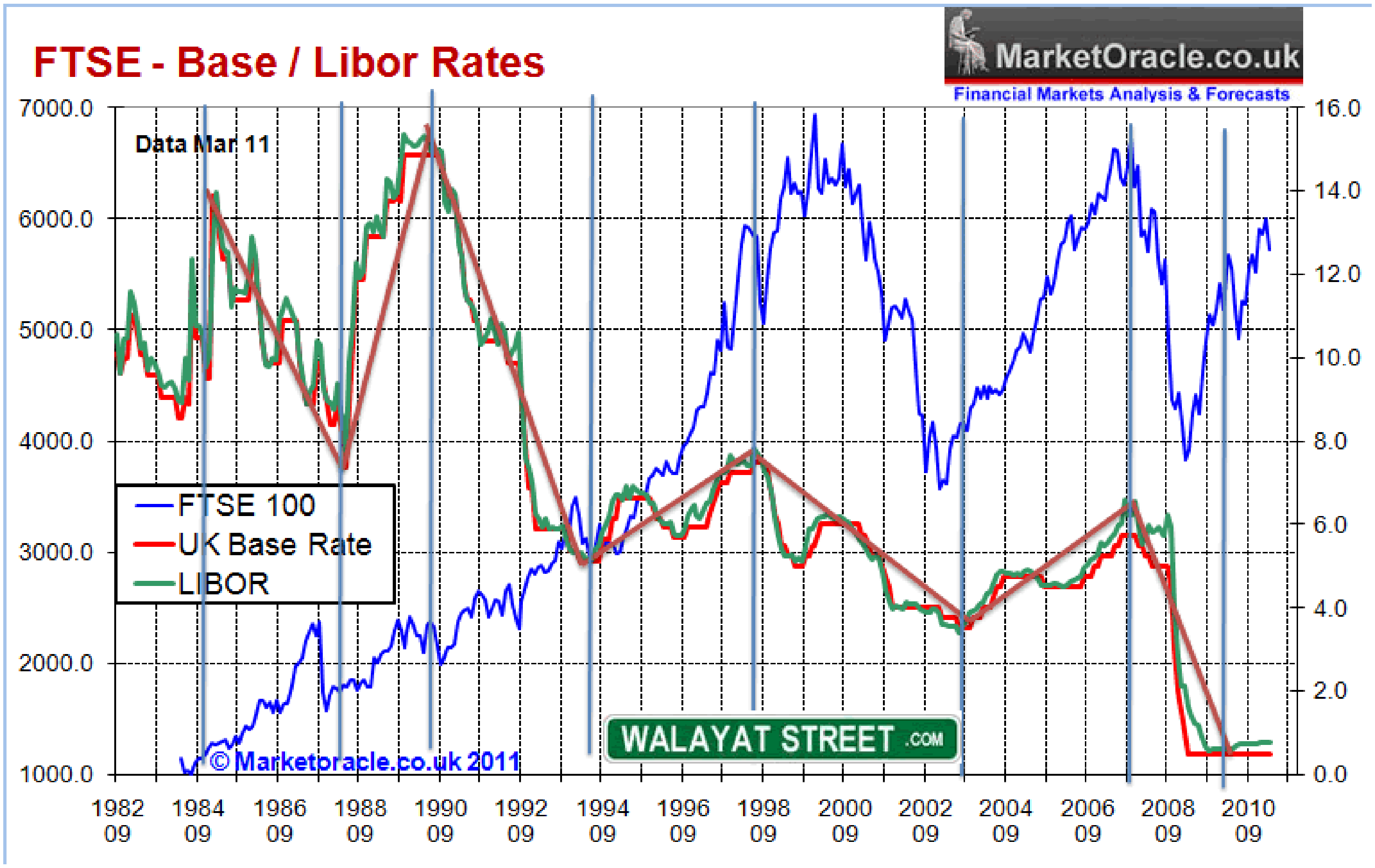
Key
Red - Factors Favouring Interest Rate Hikes
Blue - Factors Favouring Interest Rates being kept on Hold

Interest Rate Factor	Analysis / Rates implications
British Pound	Sterling is forecast to strengthen against the Dollar by mid year (£/$1.85) which will help reduce inflationary pressures, that will be taken by academic economists to signal low interest rates. However sterling LEADS base interest rates by upto 2 years, given the last lows of Jan 2009 and May 2010, this implies interest rate hikes are now more probable.
Crude Oil $110	Crude oil is soaring. Brent Crude Oil of $115 equates to 5% CPI, $150 (2008 high) equates to CPI hitting 6%, $200 of CPI 7.5%. Crude Oil of $110+ is sustained requires interest rate hikes to prevent wage price spiral risks and raise sterling to reduce imported inflation.
Crude Oil $150+	Crude Oil of $150+ if sustained would trigger another global recession, interest rates would ne kept low as governments panic in the face of sharp economic downturns.
Civil Unrest	The working and middle class of Britain will be crushed during the next few years, and will increasingly become more militant, therefore low interest rates to reduce pressures of civil

	unrest.
Financial Armageddon Fears	The BoE continues to fear financial armageddon which requires interest rates to be kept low and unlimited support for the still bankrupt banking sector.
Global Bond Bear Market	My Analysis of August 2010 correctly identified an imminent peak in US Treasury Bonds and to start a multi-year global bear market, that has subsequently come to pass over the past 9 months, UK 10 year gilt yields have already risen by 1%, that confirms the trend for rising interest rates, with official rates playing catch-up. The Bank will fight hard to prevent market interest rates from rising, so suggests a token rise from the BoE to alleviate market pressure.
Global Money Flows	Flood of central banks printed monies from the likes of the Fed add to BoE QE, implies rate hikes are more likely.
Global Interest Rates Rising	The developing world and the likes of Australia have already raised rates in response to inflation, who will next to start? USA, UK or Europe ? Odds favour the former Bundesbank Hawks at the ECB being first to raise rates this year, possibly as early as April 2011, the BoE will probable delay acting until June / July.
Government Growth Policies	In a nutshell, there aren't any, taxes are rising, and costs for education and innovation are rising. Therefore there is nothing from the government to spark growth other than printing money.
Government Spending Cuts	No real cuts in government spending, spending will continue to increase every year for the next 4 years, requires high inflation and low interest rates to real value of spending.
LIBOR	The mainstream press does not understand the LIBOR market by concluding a higher forward rate of 1.5% implies this is where Interest Rate will rise to, which is an incorrect assumption as 12 month LIBOR is normally nearly always 1% above base rate.
Money Supply	M4, and adjusted for the velocity of Money is turning lower again, this is suggestive of rates on hold
Sovereign Debt Crisis	The Eurozone PIIGS have gone quiet, but remain bankrupt and in economic depression as they cannot print money and devalue debt. Britain's response is to batten down the hatches for future debt crisis, which requires continuation of ultra low interest rates.
Tax Rises	Tax rises are inflationary as it puts pressure on prices and wage demands, which requires a rise in UK interest rates.
Trend Analysis	Suggests a series of rate rises by mid 2011 to target 2%, to be followed by several more years of rate hikes that targets a minimum rate of 4.5% by end 2014.
UK Debt	Public debt continues to grow, targets £1.2 trillion by 2015, requires high inflation and low interest rates to finance debt, this will continue for 2011, but beyond the market is not going to put up with it and demand far higher rates, especially as debt (PSND) passes 100% of GDP.
UK Economic Growth	Bank of England is targeting 2% GDP, Weak growth for the next 3 years requires continuing low interest rates else risks a double dip recession. However raising rates from 0.5% to 1% will make little difference to the economy especially given high inflation.
UK Housing Market Support	The Bank of England is forced to support the housing market with low UK interest rates as another house price crash would trigger another banking crisis.
UK Inflation	Soaring inflation demands a rise in interest rates to prevent the wage price spiral from igniting.
Wage Price Spiral Risk	Currently average earnings are running at just 1.1%, well below inflation so do not require interest rate hikes, especially as rate rises would put workers under greater pressure and thus be counter productive.
UK Unemployment	The Governments forecasts are wrong, UK unemployment targets a rise to 2.9 million which requires low interest rates.
UK Retail Sales	The distressed retail sector will increasingly pass on price rises to consumers hence higher inflation, suggestive of net pressure for an interest rate rises, however this is offset against retailers going bust putting pressure on the Banks, therefore points to reluctance to raise rates.

UK Base Interest Rates and the FTSE 100 Index

The below graph illustrates the trend relationships between the UK FTSE 100 Index, base interest rate and 3 Month LIBOR.



The key point is that there is a greater probability for rising stock prices when interest rates are rising then when interest rates are falling (the exact opposite of the consensus view).

Stock markets tend to bottom and enter into a bull market long before interest rates start to rise, which makes sense in that stock markets are a risk based leading indicator of economic activity whereas central banks are nearly always acting behind the curve to curb the consequences of having kept interest rates too low for far too long and thus have over stimulated the economy as we have witnessed with the Bank of England paralysis on UK interest rates for the past 2 years.

Therefore on its own, the UK base interest rate rising will have no effect on the current stocks bull market. Instead the key danger for the stock market will be when market commentators start to contemplate when interest rates should be cut, the good news is that we are many years away from such a situation which will follow a trend of rising interest rates, followed by an interest rate plateau before rates are again cut, which the mainstream press will at that time wrongly conclude as positive for the stock market.

The Dow and U.S. Interest Rates

My in-depth analysis of near 9 months ago during August warned of the U.S. Treasury bond bubble that was primed to burst and enter into a multi-year bear market (26 Aug 2010 - [Deflation Delusion Continues as Economies Trend Towards High Inflation](#)) since which time US bonds have fulfilled the initial bear market trend as illustrated by the below forecast graph that has quite closely matches the actual outcome that also implied technical bounce would take place from the support area of 115-118 (currently underway).

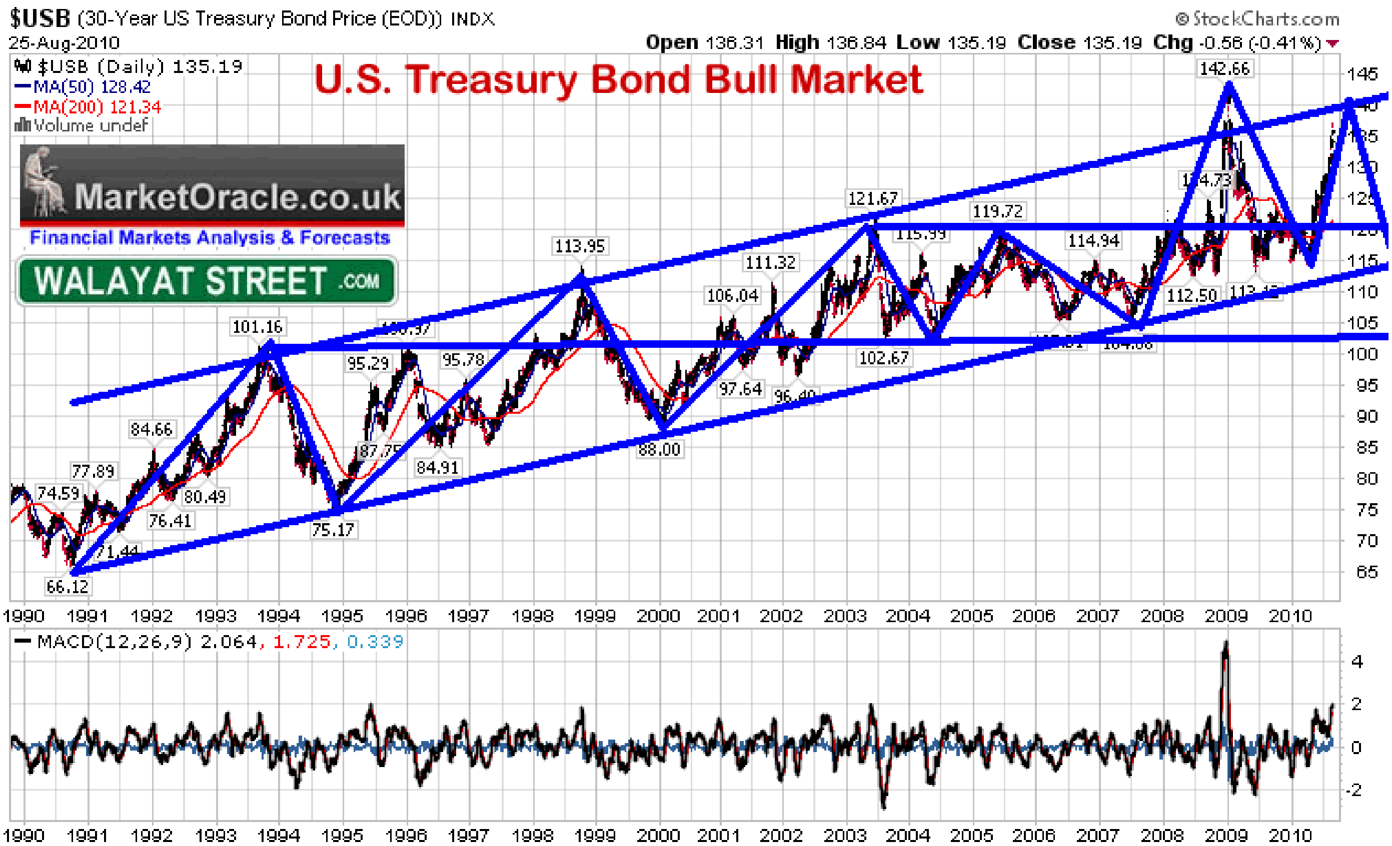


Chart courtesy of [StockCharts.com](#)

Dow Consensus Interest Rates Myth Busted

The long-standing widely held consensus view that rising interest rates are bearish for stocks and falling interest rates are bullish, has many concluding that rising U.S. interest rates will be bearish and thus act as another in a series of busted triggers for the long called for bear market to resume.

U.S. 10 Year Rates

The above graph illustrates that rising long yields are accompanied by rising stock prices and falling long yields are accompanied by falling, stock prices after a lag of upto 6 months.

U.S. Short Rates

The above graph illustrates that rising short yields are accompanied by rising stock prices and falling yields are accompanied with falling, stock price trends (after a lag).

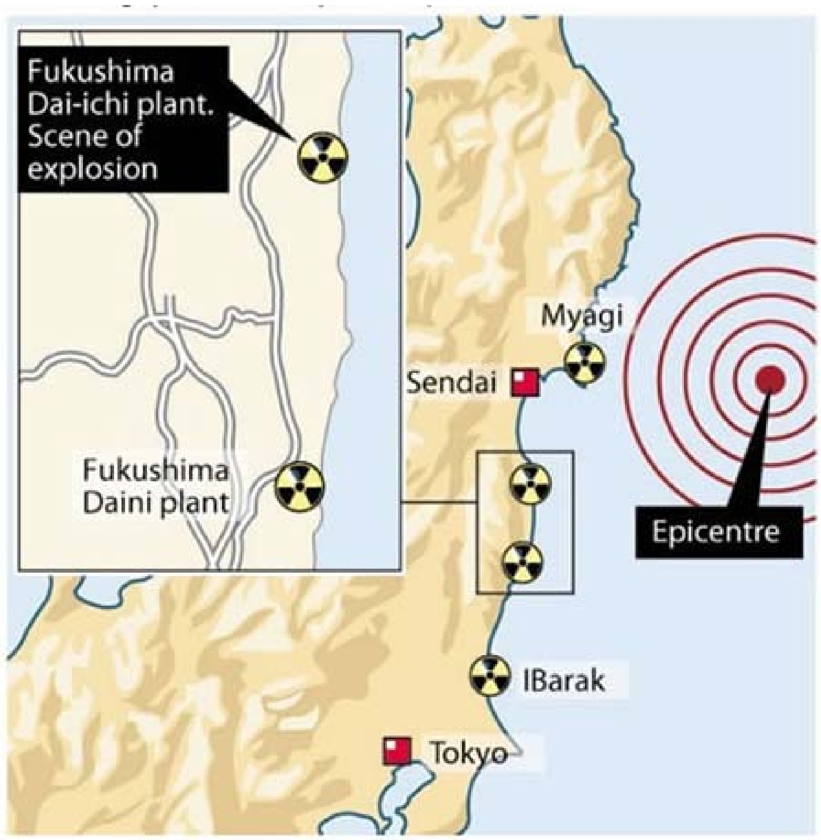
The U.S. Interest rate and Dow analysis confirms the earlier FTSE analysis that stock market rallies LEAD interest rates higher rather than interest rates leading stocks which is again another consensus myth that does not match reality. The reason for this is because generally rising interest rates are a sign of a strengthening economy, and falling interest rates are a sign of a weakening economy and thus stocks react BEFORE evidence of economic strength or weakness materialises which is when interest rate decisions are taken as a lagging action. This implies that RISING interest rates WILL NOT HAVE A NEGATIVE IMPACT on the stock market as the STOCK MARKET LEADS INTEREST RATES HIGHER.

- When interest rates are high - Stocks are in a bubble and Bonds are cheap.
- When Interest rates are low (like now) Bonds are in a bubble and stocks are cheap (no matter what the P/E ratio's imply or where the index is trading at)

Bottom Line - Rising interest rates are generally bullish for the stock market and given the fact that official interest rates have yet to rise is suggestive of a continuation of the stocks bull market for some time (on the interest rate measure).

Black Swan Events - Japanese Tsunami and Nuclear Meltdown

The real world black swan events of earth quake then mega-tsunami to be followed by the Japanese Nuclear power plant buildings exploding virtually every other day has sent shock waves across the worlds stock markets that effectively crashed the Japanese stock market by 11% in one day which set in motion a chain reaction of stock market meltdowns across the world.



Why Japans Nuclear Problem is a Problem for America

Japan in many respects has been lucky in large part as the winds blew much of the radioactive clouds away from Japan out across the pacific.

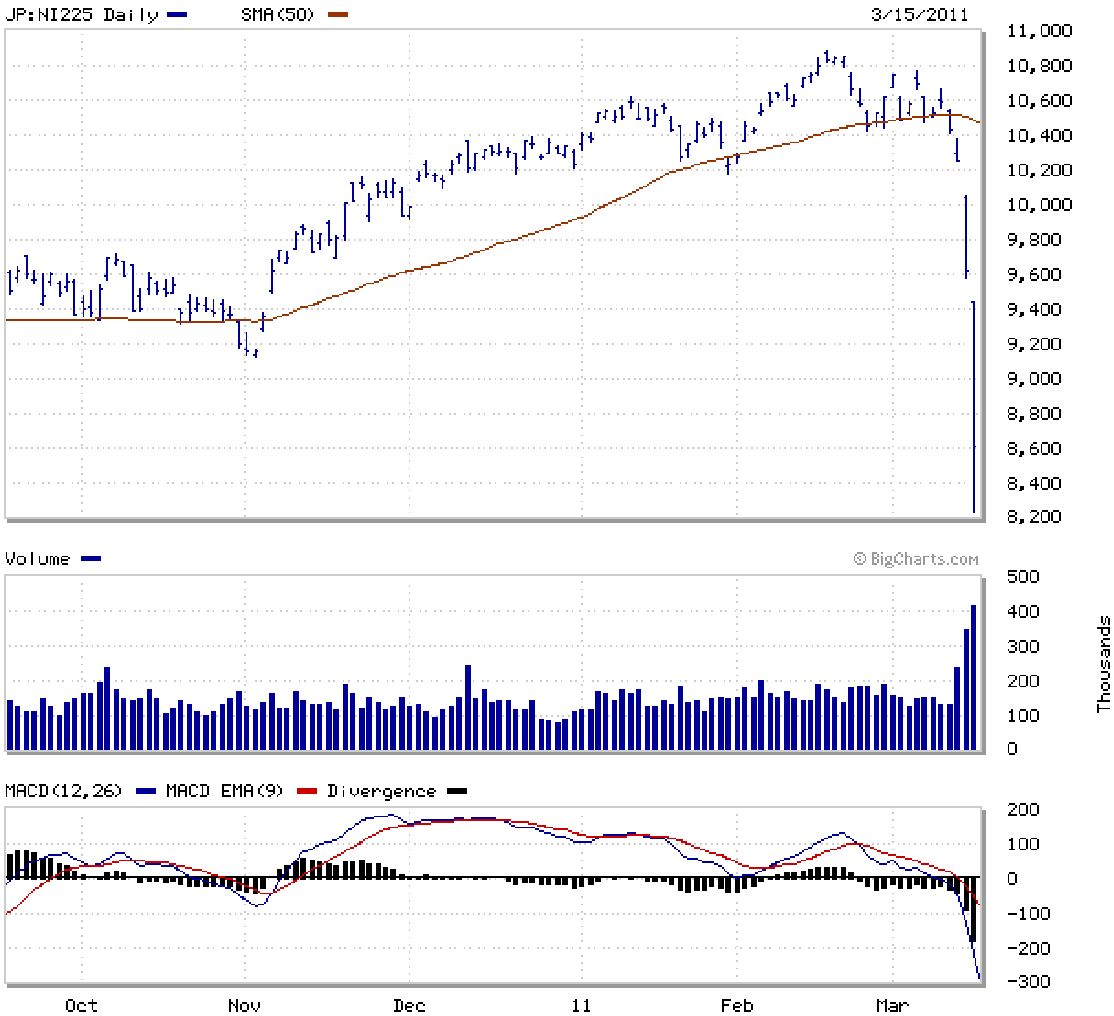
However the nuclear crisis is far from over, with worsening news by the hour of now including partial meltdowns of multiple reactor cores, cracks in the containment vessels and fires that risks meltdowns of 2 reactor cores with even worse taking place in the pool of spent fuel rods in reactor 4.

The consequences of a full blow meltdowns and subsequent explosions of Fukushima nuclear reactors would imply radioactive clouds drifting across the pacific to the western seaboards of Canada and the United States.

Japanese Stock Market 17% Nuclear Crash

Japan's crippled economy continues to suffer from power cuts, with infrastructure damage estimated costs ranging all the way upto $1 trillion. Whilst the Earthquake was bad, and the Tsunami many times worse, however Japanese nuclear power stations exploding chernobyl style in this densely populated country would be a doomsday scenario that would change the economic equation for Japan for at least a decade that would leave thousands of square kilometres uninhabitable. The Japanese economy had already been fighting hard to pull its way out of a 20 year long economic depression.

Japan's stock market crashed by 10.6% to close at 8,605, down 17% over 2 days. Japan's central bank responded by pumping in a further $90 billion liquidity on top of the previous days $160 billion by means of making loans available to financials and buying of Japanese bonds and stocks and looks set to undertake additional similar measures for sometime.

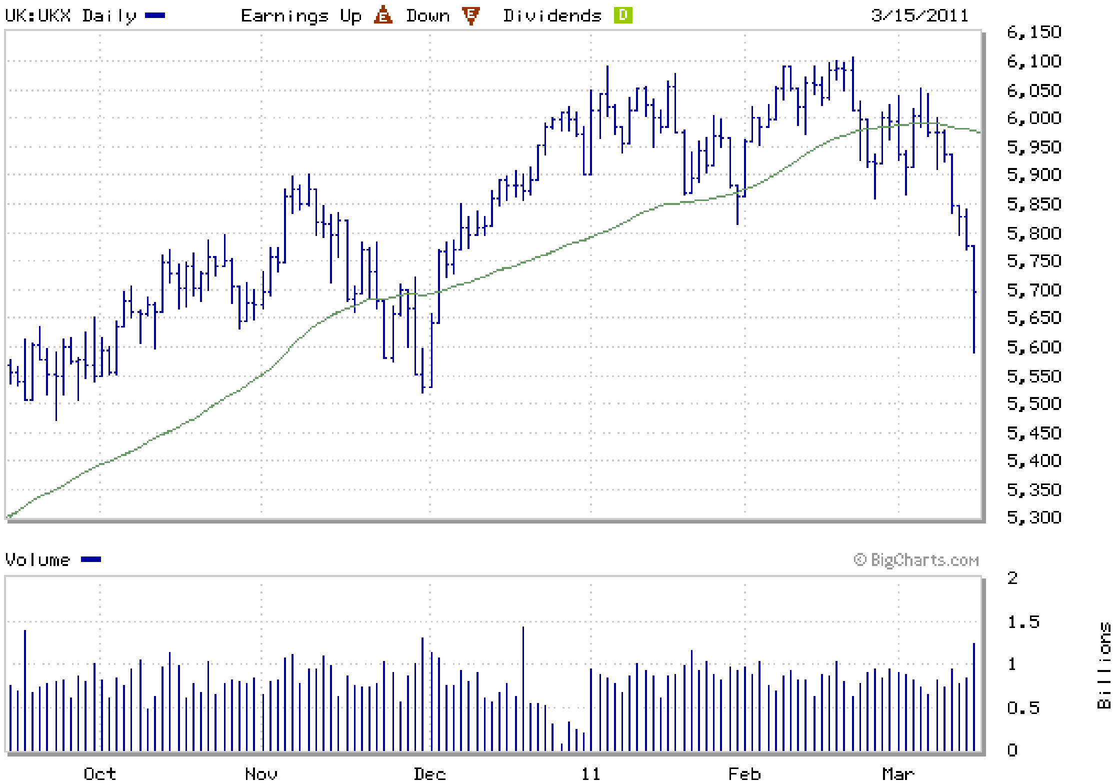


Japans economic future hinges on the actual outcome of the Japanese nuclear plants crisis, if total meltdown can be averted then ironically Japan's GDP could rebound quite strongly after the initial slump as infrastructure including whole towns are rebuilt. Meanwhile everyone waits and watches the outcome for at least 4 Japanese nuclear reactors.

In terms of the global economy Japan's huge 20% of GDP Loss, is not expected to have any lasting impact as basically Japan after 20 years of stagnation is not as big global player that it once was, therefore at worst this will hit global GDP by 0.2%.

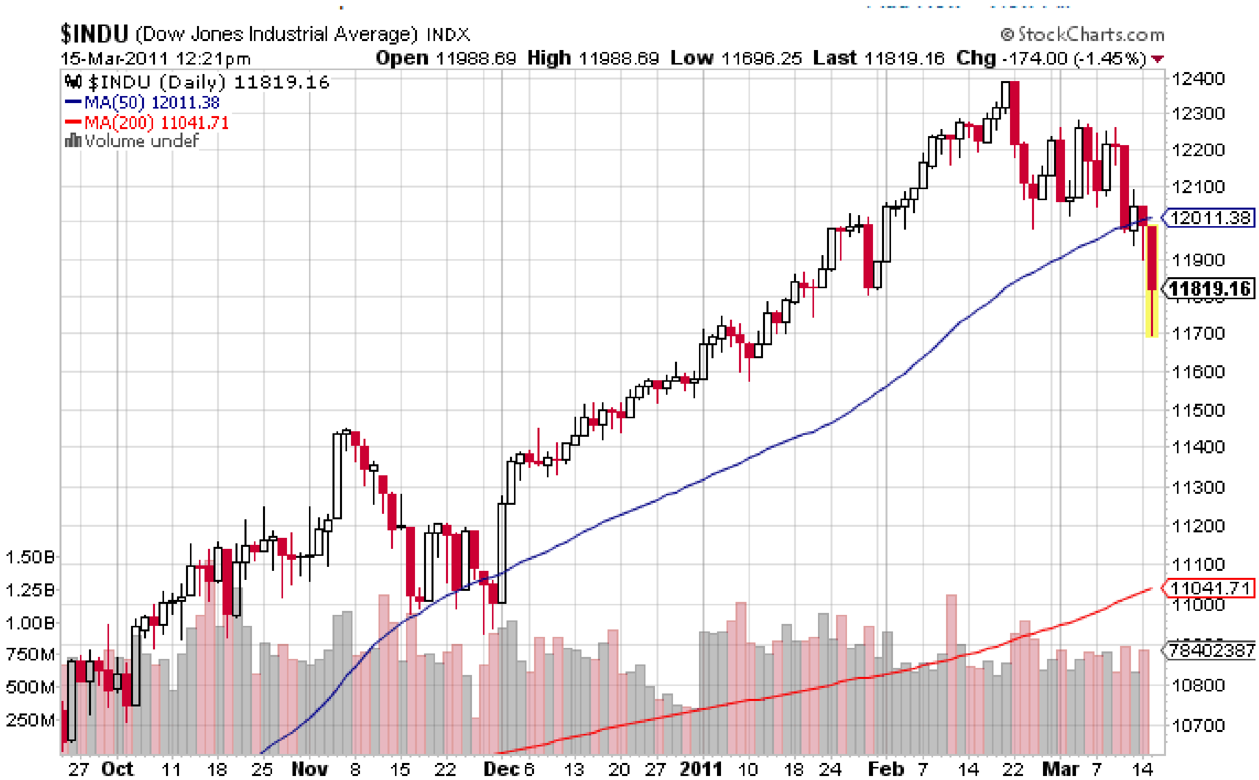
FTSE 100 Index

FTSE opened sharply lower in response to Tokyo's crash, down by more than 3% before beginning the slow climb off of the morning low as the index tracked a more stable Dow into the close to end down 1.4% on the day at 5,615.



Dow Jones Stocks Index

The Dow has continued to show relative strength against other stock indices as it continues to play out a relatively orderly corrective trend following its peak of some 4 weeks ago.



Black Swan Events

The stock market meltdown reactions to the nuclear meltdowns illustrates that unpredictable black swan events can impact on market trends. The impact where the stock market trends is concerned is for added downward pressures on the already anticipated correction of 10%. How much extra downward pressure is dependant upon on the actual outcome of the nuclear crisis, that could in a worst case scenario lead even distant Tokyo as a ghost town with resulting implications of several more magnitudes than anything that can be imagined at the time of writing.

Japanese Update 31st March 2011 - The nuclear meltdown is worse than originally feared with the Fukushima nuclear power plants going pop one by one. However the Japan nuclear crisis represented great opportunities for investors to first pick up cheap nuclear power / uranium mining stocks and secondly to measure market strength or weakness, because the market has shown remarkable strength as the nuclear crisis has NOT resulted in a worse correction then the anticipated 10% drop, in fact the stock market (Dow) corrected by barely 7% which is a sign of underlying strength that I will take note of in formulating the final conclusion.

Black Swans Everywhere ? - That's what the author of "The Black Swan" appears to see in every market reaction. Clearly the real world black swan of the Japan Tsunami illustrates that those jumping for the black swan banner to explain why market movements are not predictable is more an excuse for inability to perform unbiased analysis to arrive at a probable conclusion than actual randomness, for if market movements were truly random then there would be no bull or bear markets.

In a nutshell, the Black Swan strategy is to basically to keep betting on a crash "Black Swan" until it eventually happens. You don't have to be genius to follow a strategy of buying far out of the money Puts that 99% of the time expire worthless!

Remember White Swans Out Number Black Swans

Seems like every day there is talk about black swans, what about white swans ? Positive developments to the upside ? Since the Stock market has not crashed, collapsed, evaporated into perma- bear abyss targets, it clearly is discounting something positive ? Whilst bears focus on the doom and gloom of double dip recessions, depressions, armageddon's, focusing wholly on a minor correction, though conveniently forgetting the preceding 90% advance.

Crude Oil Price Impact on Stock Market Trends

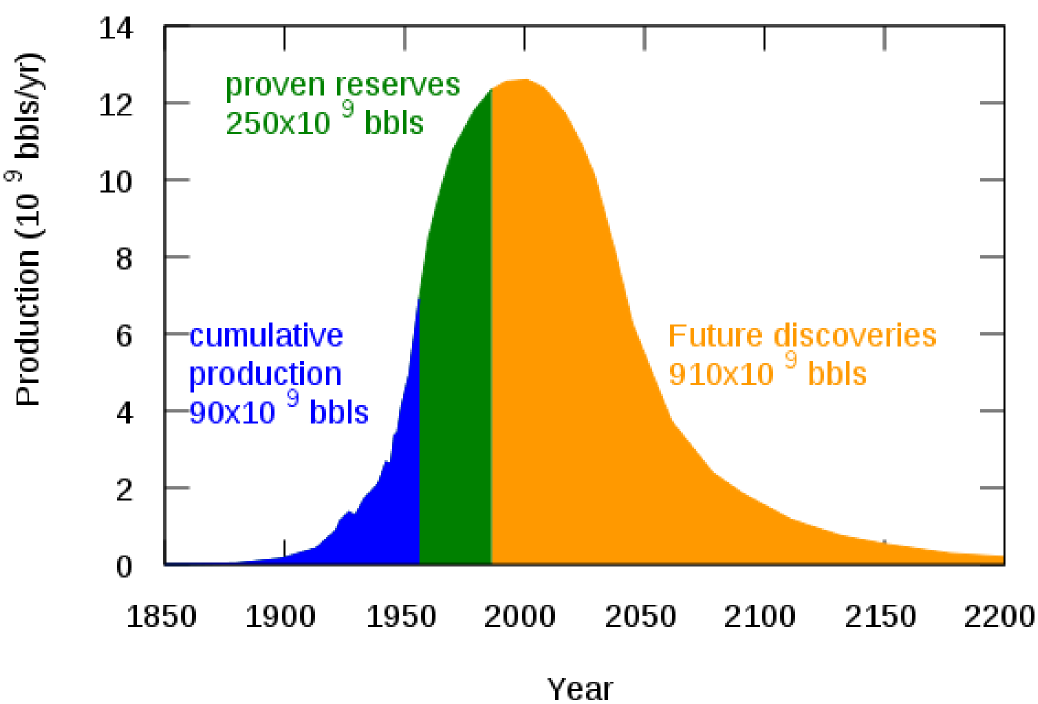
Whilst the mainstream press as ever looks in the rear view mirror to pick events as reasons for the rise in the oil price, such as the ongoing breakout of freedom in the middle east, however as stated in the January 2010 Inflation Mega-trend ebook (FREE DOWNLOAD) and updated below, the consequences of peak oil ensures an escalator effect for the ramping up of oil prices into ever higher trading ranges that will one day make today's high oil prices look cheap, as oil prices continue a volatile mega-trend to north of $200 per barrel a level that could arrive far sooner than many can imagine i.e. during the next few years.

Oil Price Inflationary Mega-trend

Crude oil is both a major driver and beneficiary of the inflation mega-trend because during times of high inflation or expectations of future high inflation the highly liquid crude oil market is utilised to both hedge against and speculate in favour of future inflation, thus one could say illustrates the self full-filling prophesy at work as witnessed during 2008 that saw inflation hedging result in a surge in the crude oil price to $148, which had the effect of dragging inflation higher, only to crash as a consequence of the financial crisis which continued into the deflation of late 2008 and early 2009. In addition to its inflationary impact, crude oil is also subject to Peak Oil, which the next section touches upon.

Peak Oil Mega-trend

Firstly, Peak Oil does not mean that the world is running out of oil any time soon, peak oil means that the world is about to pass the point of maximum rate of production after which production is expected to decline as it becomes ever more costly to find and extract new oil fields thus resulting in diminishing supply. The theory of Peak Oil is based on the principle originally developed by M King Hubbard in the 1950's, who observed the rate of production and depletion of oil output from the United States oil fields over time which culminated in a bell shaped curve. M King Hubbard went on to use his findings to accurate predict that U.S. oil production would peak by 1970 and decline rapidly. The below updated graph illustrates the most recent forecast projection for global Peak Oil which implies that the supply output peak is imminent, where the test will come when supply fails to respond to rising demand as the worlds economies return to trend growth.



http://en.wikipedia.org/wiki/File:Hubbert_peak_oil_plot.svg

Whilst the developed world continues to stabilise and in some cases cut back on total oil consumption due to improvements in technology and switch to renewable's and alternatives such as natural gas. However much of the reduced western oil demand (ignoring the recession) for oil consumption can be attributed to the exporting of industrial production abroad to China and India, which remain several decades away from reaching the level of West in terms of stabilisation of consumption as the collective total of 2.5 billion people of both countries consume on a per capita basis less than 10% of that of the average western person.

Peak Oil is a reality, the major cheap oil fields across the big producing nations have already passed their peak outputs and are declining fast in output and where discoveries of new economically recoverable reserves are not keeping pace with. We got a taste of the consequences of peak oil during 2008 when Crude oil soared to $147, where a small shift in the supply demand balance can cause extreme shifts in price as MARKET SENTIMENT (speculators) drives prices into ever increasingly volatile price trends.

Therefore, oil and energy commodities despite continuing to exhibit high price volatility over the next 10 years, will still result in an rising trend curve as the oil price escalator repeatedly moves to ever higher trading ranges, therefore I expect we will continue to see extremely high price volatility in the region of 50% as speculative funds continue to dominate short-term trends in the highly liquid crude oil markets, which the long-term inflationary mega-trend (as a consequence of emerging markets growth, population growth and fiat money printing) continues to force oil prices ever higher.

Oil Price Impact on the Stock Market

The consensus view as iterated on a near daily basis in the mainstream press and on the internet is that rising oil prices are generally bearish for the stock market, and falling oil prices are generally bullish. However, the below graph of the Dow and Crude Oil price illustrates that most of the time the oil price and the stock market (Dow Jones index) can be expected to trend in the same direction. This clearly implies that most of the time a rising oil price is associated with economic growth and thus rising future prospects for corporate earnings are discounted by rising stock prices. Whereas a falling oil price is associated with weaker future economic activity and thus implies lower future corporate earnings which is again discounted in the present.

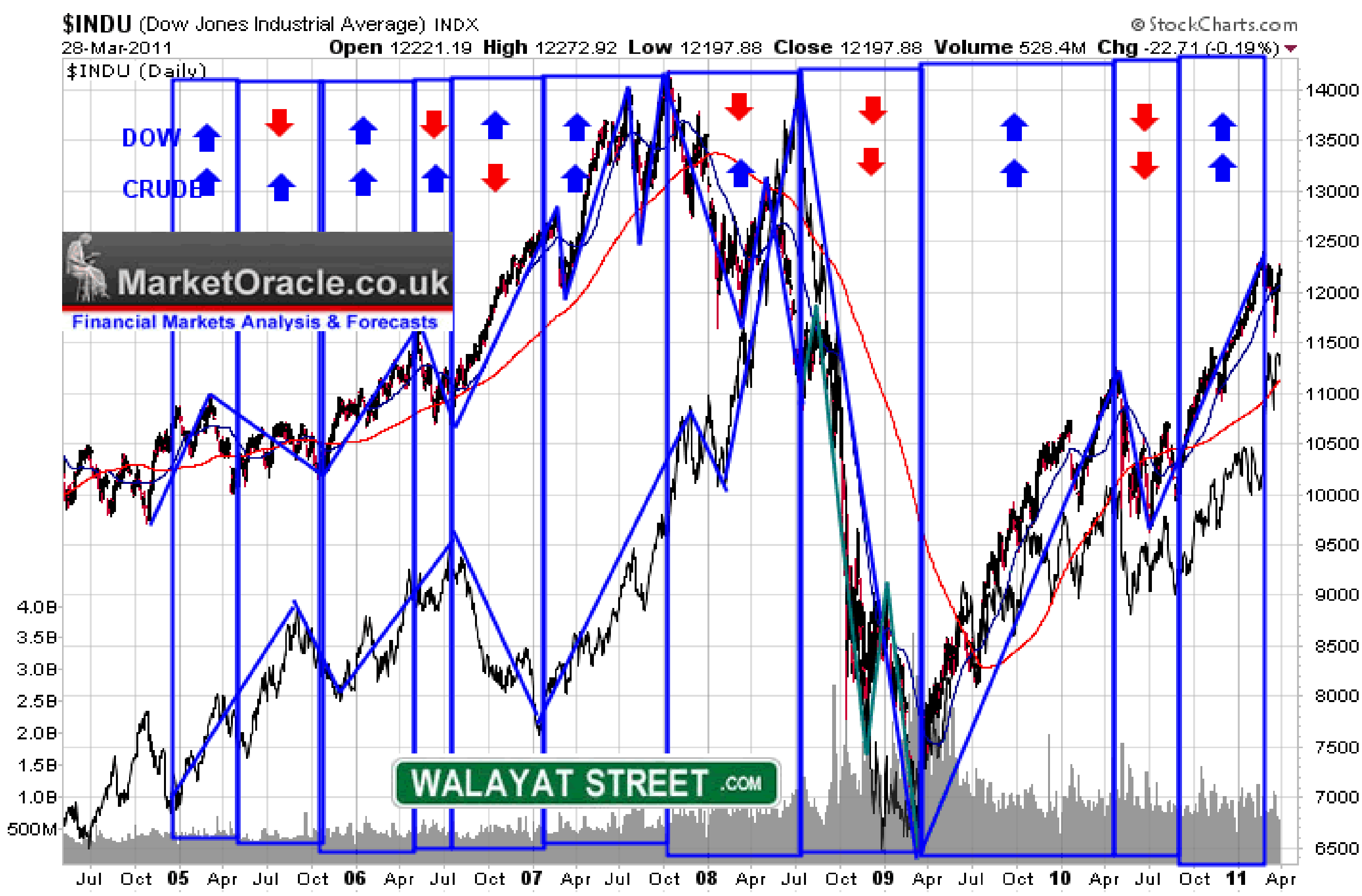


Chart courtesy of StockCharts.com

As mentioned earlier, rising oil prices are part of an inflationary mega-trend, which means that as higher oil prices trend higher, the associated costs can be expected to be passed into consumers in an orderly manner, thus the peak oil mega-trend is bullish for nominal stock prices.

The only fly in the ointment is that as illustrated by the oil price trend during the first half of 2008, when there was a serious divergence between the stock market and the oil price as mania gripped the market that sent inflation soaring, and thus as the oil price soared the stock market entered into a severe bear market. However this divergence did not persist as oil price bubble burst sending the oil price literally crashing lower, playing catch up to the stocks bear market into the March 2009 low.

Conclusion

A rising trend for oil prices is bullish for the stock market as long as it does not involve a parabolic mania driven spike that is likely to kill future economic demand and is thus discounted in the present by the stock market trending lower, with the oil prices soon catching up to the stock price decline as occurred during the second half of 2008.

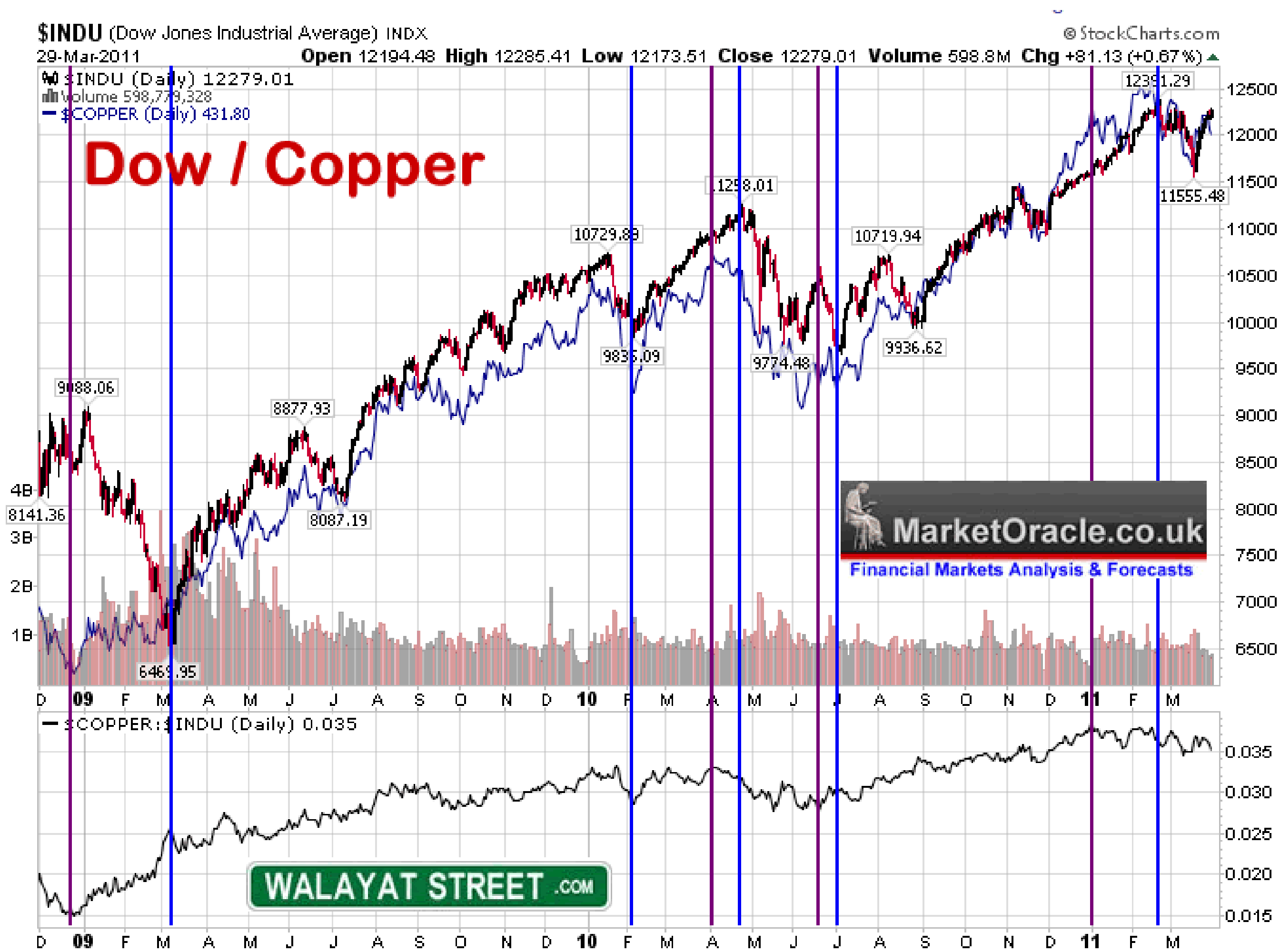
The current situation with oil prices hovering just above $100, is not bearish for the stock market as long as the oil price does nothing more than just trend higher rather than enter into a mania driven spike for instance to say $150 by mid summer, therefore a gradual uptrend is unlikely to impact negatively on the stock market.

Inversely a weak oil price is likely to be bearish for the stock market. However the current outlook is at worst suggestive of oil prices consolidating before trending higher and therefore continue to support a bullish outlook for stock prices.

The Copper Price and the Stock Market Trend

Copper is an important industrial metal which can be treated as a leading economic indicator for economic activity that extends beyond the performance of the mining sector stocks and can be expected to act as an oscillating leading / lagging indicator for the overall stock market trend, the degree to which this analysis seeks to determine.

The below graph illustrates the trend relationship between the copper price and the Dow Jones Stocks Index where there has been a clear tendency during the past few years for the copper price to lead the stock market price trend.



The most recent price action of a weakening copper trend is line with that of a weak stock market price trend. Whilst the stock market has bounced strongly from the recent lows, however the copper price continues to show relative weakness which suggests that the stock market trend over the coming months is going to find it difficult to break higher until the copper price trend again starts to out perform the stock market trend.

A closer look at the copper price shows a market that is consolidating a strong bull run from the last significant low of 272 in June 2010, with the last low of 407.60 being a near perfect technical bounce off of support from the preceding high, therefore strong support lies under the market at around this level. In terms of the bull market trend, the break of the support trendline implies that the correction is not over in terms of time which at the very least suggests that copper is likely to test the 407 support and more probably break support before turning higher again. This suggests that copper has some months to go before the bull market resumes and since the stock market can be expected to lag copper then a resumption of a sustained stock market bull run is even further out, thus suggests that the stock market is likely to trend within a trading range for much of the summer months i.e. at least into July 2011.

Stock Market Manipulation

Market manipulation is nothing new, it has been around since the birth of the stock markets and their insurance precursors, current market manipulations have their roots in the 1987 crash when the Fed stepped in to Push the Dow UP from another pre-open 250 point crash (15%) (1987 Crash Trading) utilising actions terms as Permanent Open Market Operations (POMO's).

The Fed's role remains to prevent a market collapse that would result in a 1930's style depression, which is just part of a highly manipulated market where the over leveraged dark pools of capital rule as deployed by the worlds investment banks and speculative funds which run the show but who's actions remain invisible to the mainstream press that pumps out candy floss rear view mirror commentary that remains completely blind to the reality of the markets.

Apart from working within a dark pool institution such as Goldman Sachs, the only way to get an insight into their behaviour is to evaluate which trend would the dark pools most profit from at any particular point in time i.e. in terms of market psychology which usually means taking the opposite action to the consensus view, though consensus can be expected to be right usually towards the end of a trend as the dark pools of capital distribute into consensus driven counter parties as encouraged to do so by the mainstream financial press.

This is one of the key contributory reasons why I called the birth of the stocks stealth bull market of March 2009 that has since consistently been called a bear market rally despite the fact it has seen a phenomenal 90% gain in 2 years with relatively minor reactions against the trend (low real volatility), which is a DREAM return for any investors, one cannot hope for or expect anything better, but instead of enjoying a hugely profitable bull run, most small investors have been convinced to WAIT for clear evidence of economic and corporate earnings recovery by which time it is TOO LATE as the market has already moved, precisely as I warned of in Mid March 2009.

The only real way to get insight into what the dark pools are upto is by turning the TV off and listening to the price action as that is where one will find the finger prints of their market manipulations, be it evidence of steadily rising market price trends that defy all purported rhyme and reason as per what is written in the press or the flash crash events where the manipulated markets are not giving investors and traders time to react as the dark pools of capital continue to rake in huge profits by circumventing official exchanges such as the NYSE which if my memory is correct ALREADY HAS CIRCUIT BREAKERS that should STOP FLASH CRASH events in their track, so why doesn't it ? Obviously, because far more trading of shares and their derivatives is taking place between the Dark Pools of capital OFF of the exchanges, which is ideal for a manipulators paradise.

So, yes the markets are manipulated, though that is nothing new as all human activity involves manipulation of our environment to one degree or another where any mechanisms put into place to limit human manipulation are soon circumvented, we are a species of manipulators, we live in highly manipulated cities that are completely distant from the environment of the natural world, so don't waste time going look for reasons of why events such as flash crashes happen, instead look for the finger prints for future market manipulation's that show their hand ONLY in the price charts! Not anywhere else! (more on the flash crash here - 09 May 2010 - Don't Blink Or You Will Miss The Stock Market Crash!)

So what does my interpretation of the market manipulators, Fed and the Dark Pools of Capital telling me today ?

It is telling me for the stock market as a whole that the dark pools are still engaged in accumulating into a stock market multi-year bull market where each correction (and targeted individual stock flash crash) serves the purpose of shaking out the temporary weak longs. Which means we are STILL in a stealth bull market where the highly vocal media-sphere view as a BEAR MARKET RALLY who's end is always imminent, and consistently WRONG market calls by popular perma-bears and the financial press are a god send for the market manipulating dark pools of capital as they continue to profit from the stealth mega-trend.

Current Stock Market Sentiment & Psychology

We are now approaching the period of "Sell in May and Go Away" which is second only to that of October Crash Events in popular investor psychology which therefore implies many investors are both looking to SELL into early May as well as buy any drop of more than 10% during the summer months, though off course as occurred during 2010, after 10% they will wait for 20% and have missed any opportunity to buy. So folklore influenced sentiment is about to turn bearish for them to be wrong implies an earlier briefer correction perhaps during the month of April and a bullish May.

Investor sentiment in terms of trend

The bears have just been delivered another text book pasting by the bull market as they were just becoming their most vocal in their calls for an end to the stock market rally and were certain that the bear market had resumed i.e. the market bottomed and rallied higher at maximum bearishness , technically this usually implies a trend trajectory equal to the size of the correction as actual short positions are stopped out to propel the market higher in the direction of the bull market trend which on face value suggests a Dow target of 13,200 before the next major correction is due when investor sentiment will have become overly bullish.

The bigger picture is that now of a 2 year bull market, and the longer a bull market runs the greater the underlying bullish sentiment it accumulates as more investors and commentators throw in the towel and join the bull market. This also means that future trend trajectories will be far shallower, i.e. we are unlikely to see a repeat of the past 2 years bull run that added 90% to the stock market, this on face value suggests a trend trajectory at half or more probably 1/3rd the rate of the past due to overall higher bullish sentiment.

Investor sentiment in terms of economic data and events

Just as during October 2010 much of the economic commentary was centred around the start of QE2 in the US, so today commentary is focused on the start of QE3 later this year, if the pattern repeats then this uncertainty impacts negatively on investor sentiment which implies stock market weakness ahead of the start of QE3, but more on QE in the next section.

Quantitative Easing AKA Money Printing

U.S. politicians are living in fantasy land where they think they can get away with printing money and debasing the dollar without any consequences, they either do not care because they have become rich on the cash funneled to them by their bankster masters who they serve, or that they are delusional, completely detached from the real world. Many countries in the past thought the same, Germany, Russia, Italy, Zimbabwe to name a few and they ALL economically collapsed leaving the holders of their currencies with worthless paper to sell on ebay as high denomination trinkets, though off course the US dollar has already lost over 90% of its value during the past 100 years as a consequence of the stealth debt default through Inflation.

The stealth theft of wealth by means of high real inflation has been getting another accelerant these past 2 years (in addition to public debt and POMO) in the form of direct money printing (electronic) by the US Fed to the tune of $2.3 trillion to first buy mortgage backed securities and then monetize the U.S. budget deficit that comes in at an annual $1.5 trillion and likely to continue at approx 1.5 trillion a year for a decade, that requires direct purchases by the Fed because no one else is dumb enough to buy the literal flood of paper, in fact now over 70% of new debt issuance is purchased by the Fed with most of the rest by other money printing central banks.

Whilst $2.3 trillion may not sound like a lot given the size of the approx $15 trillion annual GDP U.S. economy, but we are living in a fiat currency world where fractional reserve banking allows the banks to create credit at more than X10 the electronic print run and many, many times more during the pre-credit crisis credit boom. Where's the money gone ? Well not much into loans to main street but it has into assets on leverage such as commodities and stocks and off course the Fed's bankster brethren making over a trillion in risk free profits on buying US government backed bonds such as Treasuries and mortgage backed securities, U.S. tax payer funded profits without risk.

This is why the past year has seen virtually every analyst jump on board the QE bandwagon as a rear view mirror explanation for why stocks have soared, though backtrack to Feb / March 2009 and quite a number of these same so called analysts were explaining at length why QE meant that stocks would NOT RISE ! (Google it).

Worse still, a year into the stocks stealth bull market trend (March 2010) these same analysts were excitedly stipulating that the Fed had indicated that QE had come to an end and had started to unwind its positions and therefore implying that the so called bear market rally was over, following which along came the start of QE2 in November 2010, these same analysts are now suggesting that there will be no QE3. No wonder 90% of traders and many investors are on the losing end of trends because approx 95% of what they are reading is garbage pumped out by nothing more than sales men, academics, journalists or frankly media whores. The record is all there on Google to be confirmed within a minute or so. So as I say ALWAYS say, research each analysts past record before you pay any attention to their most recent diatribe. For it is always easy to pump out propaganda in support of ones pre-existing perma-view usually pushing sales but infinitely more difficult to arrive at a probable trend conclusion.

So whilst so called analysts had convinced themselves during early 2010 that QE had come to an end. However my conclusion has remained the same for over 2 years now that once Quantitative Easing starts it CANNOT END whilst large budget deficits exist regardless of what the central bankers publically state, as their focus is in massaging the expectations of the general population and financial markets with regards positive expectations on the economy and inflation and NOT in publicising accurate projections, as that would make their jobs much harder as I elaborated upon during mid 2010 (13 Aug 2010 - The Real Reason for Bank of England's Worthless CPI Inflation Forecasts).

The facts are and have remained for two years now that QE is INFLATIONARY (which is why I termed it as Quantitative Inflation in March 2009), which ultimately means HIGHER Commodity Prices ($ oil is not soaring just because of political unrest), Consumer Prices, Asset Prices and eventually Interest Rates (covered in the bonds section). Though it's not just the U.S., ALL countries are at it, any economic problem and they press the print money button because it is far easier politically to print money (stealth theft of purchasing power) then to raise taxes / interest rates.

The whole point of QE money printing asset buying was to generate economic growth by means of boosting the wealth effect. What the central bankers such as the Fed and BoE never factored into their formulae's was that their bankster brethren would use the cheap money to buy commodities on leverage rather than make loans to main street, hence sending asset and commodity prices soaring well beyond even the real inflation rates of between 7% and 9%, despite the fact that they did the exact same thing during mid 2008 to crude oil. Yes there is a wealth effect for the bankster's and the few who have been able to bite the bullet and get on board the stocks stealth bull market and commodities, with prices being inflated by bankster's courtesy of central bank easy money.

Inflation Time Bomb - Each QE builds up inflationary pressures in the U.S. economy that act as a ticking time bomb primed to go off, I cannot over state how inflationary QE is for an economy, even if QE stops at $2.3 trillion (which I doubt) then that pressure will remain, the ignition for it will probably ironically lie with rising short-term interest rates because QE induced near zero short rates have actually acted to suppress economic activity as the expanded Fed balance sheet has acted to soak up excess dollars and thus acted to suppress consumer price inflation whilst boosting asset price inflation, however as noted elsewhere in this ebook it is gradually leaking or flooding back into consumer price inflation via mechanisms such as foreign capital flows. At the end of the day QE of $2.3 trillion will eventually translate into new fiat currency money supply of between $20 trillion and $40 trillion, in a gradual process of inflation leakage as U.S. CPI that inexplicably to the mainstream financial press trends ever higher. Throw in several more QE's and those numbers can be doubled yet again which illustrates the ticking inflation time bomb.

If for whatever reason the Fed takes fright to the inflation monster it has created and suspends QE at or near current levels then that still would require QE to be unwound to eliminate the inflation monster that would still be enough to send U.S. CPI soaring as short-term interest rates rose. The net effect would be for the US bond market to plunge or even crash taking the dollar down by several notches with it - ALL INFLATIONARY.

There really is no way out for the Fed, for if they continue QE its inflationary if they suspend QE and raise interest rates its still inflationary, hence Inflation is a ticking time bomb in the U.S. that WILL explode.

PIMCO - has reportedly dumped all of its U.S. Treasury Bonds, in response to the expected end of QE, the Blogosfear ran and cried panic for stocks and more importantly bonds to imply that there will be no more QE! - Well that's not going to happen whilst large deficits exist that require the central bank (Fed) to monetize debt (buy government bonds). Instead, if Pimco and other bond funds are liquidating treasuries then where are they going to invest ? Yes I know they will likely hold a lot of cash as a stop gap, and apart from shorting treasuries which I have been advocating since August 2010, it seems obvious to me that instead of investing in bonds Pimco is going to invest in equities, as the always rear view mirror looking financial press will only see AFTER the fact - perhaps some 6 months down the road when perhaps the Dow has added on another 2k then the headlines will be PIMCO sold bonds to buy stocks !

Implication for stocks - Just as QE1 and QE2 were BULLISH (inflating asset prices) so will QE3 and after it QE4 that reinforces the primary bull market trend, for the U.S. will not stop printing money whilst the budget deficit remains anywhere near 10% of GDP (current approx 9%) and each time the U.S. announces another print run (QEx...) so it will imply ever higher future Inflation AND Interest Rates and so will weaken the U.S. Dollar (in relative terms because all fiat currencies are in free fall against one another), but not to worry asset prices are leveraged to real inflation courtesy of the likes of QE which means stocks should out perform loss of purchasing power.

In terms of market timing, weakness ahead of the end of QE2 in June and into the no mans land before the announcement of QE3.

So pay no attention to analysts / mainstream financial press and the Fed noises indicating an end to QE, instead keep your eye on the U.S. budget deficit as the most reliable indicator for future QE, and so I don't see why I should change my view that QE will run for the whole decade as the U.S. follows Japan towards debt at 200% of GDP (monetized courtesy of the Fed), though probably QE9 will be the straw that breaks the camels back.

U.S. Dollar and Stock Market Trend Relationship, Currency and Real Wars

The consensus view is that a rising US Dollar is bearish for the stock market whilst a falling Dollar is bullish. The below graph illustrates that more or less this has been the trend relationship between the two markets for the past 10 years.

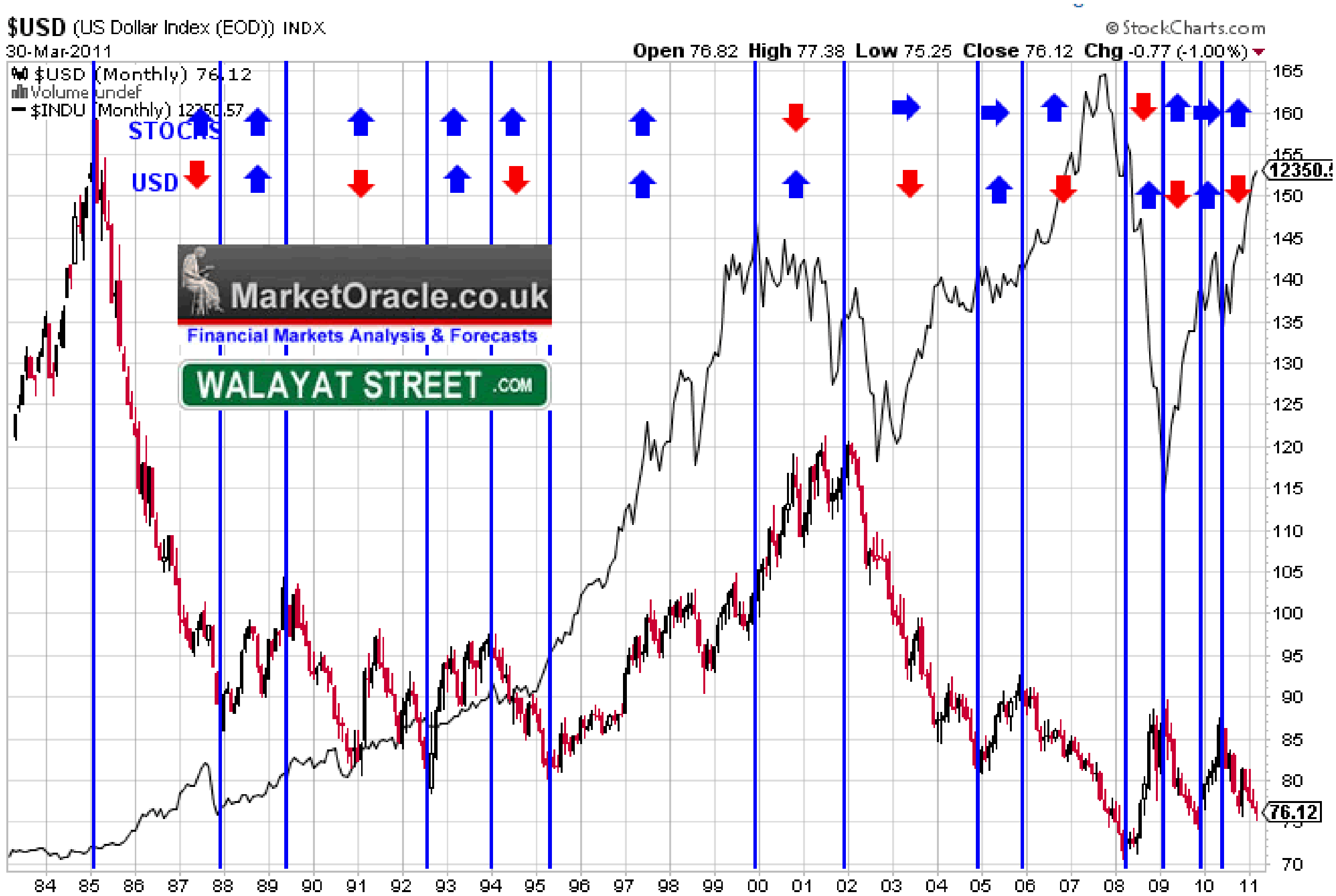


Chart courtesy of StockCharts.com

However the earlier trend of the 1980's and 1990's shows a conflicting picture where for significant lengths of time the dollar and stocks both trended in the same direction, usually both upwards which coincides with periods of strong economic growth when the U.S. was a favoured investment destination thus demand for US assets and stocks was high which in large part fed the likes of the dot com bubble. Off course when economic growth is strong the central bank does not need to print money to buy assets and monetize government debt as deficits are small or even in surplus as the Clinton years witnessed.

But for now the key trend remains for that of a weak dollar as supportive of stocks and strong dollar as a negative for the stock market.

The Currency Wars Big Secret

The mainstream press periodically obsesses over China and others for manipulating their currency exchange rates against the U.S. Dollar that is painted as the innocent victim, U.S. politicians with self righteous indignation call for action to be taken against the evil currency manipulators. When in actual fact the likes of the Chinese are more like rabbits frozen by fear in the face of the Feds headlights, trying hard not to become road kill in the face of Fed actions and the U.S. Congress's near endless deficit spending debt accumulating binge that is debasing the worlds reserve currency.

Contrary to the way the financial world may be presented in the mainstream media, the Fed is at the head of the global central banking syndicate that runs the show Don Vito Corleone style, where should any foreign central banks get out of line, will soon be in for a currency markets massacre as they see their currencies soar against the dollar and thus destroying their ability to export, which their economies are addicted to drug addicts style, as the official policy of the U.S. since the midst of the cold war has been to control the worlds financial system by means of operating a continuous large trade deficit, as covered at length in the October 2010 article (12 Oct 2010 - USD Index Trend Forecast Into Mid 2011, U.S. Dollar Collapse (Again)?).

Whilst many in the mainstream press have finally clocked onto the fact that the Fed intends to inflate (about a 18 months behind the curve), what no one appears to have clocked onto so far is that the BIG SECRET is that the Fed intends on INFLATING THE WHOLE WORLD ! It is pushing the worlds governments reliant on exporting to the U.S. into devaluing their currencies by means of printing money (See Ebook QE section).

Thus against the Fed INFLATE or DIE policy, all foreign central banks are fighting hard to maintain their pegs to the downwards spiraling U.S. Dollar, which effectively means that all currencies are spiraling lower hence the whole world is inflating at the Feds whim. For instance emerging markets such as Brazil repeatedly cry out that they are being flooded with too much foreign capital that is driving up their currencies, therefore they are forced to print and debase their own currencies i.e. INFLATE! (are you listening delusional deflationists ?) THE FED IS INFLATING THE WHOLE WORLD!

How can the US Fed get away with printing money and inflating the whole world ?

You may wonder that the dollar's strength (lack of collapse) in the face of money printing and ever expanding debt accumulation is as a consequence of underlying US economic strength or huge amounts of (Invisible) gold reserves at Fort Knox. The real reason why the US is able to get sway with printing unlimited amounts of money is the US Military, as the US remains the worlds sole hyper military power following the collapse of the soviet union and increasingly relies on global military power to back up the dollar as the worlds primary means of exchange, as any country that chooses not to comply will likely be on the receiving end of a 1000 tomahawk cruise missiles as Libya is experiencing today or even worse as Iraq has experienced during the past 8 years.

The U.S. Military Empire targets all those bastions of mediums of exchange that compete against the dollar, which is why the literally super sweet oil rich state of Libya presents such an ideal target for not just the U.S. but also the competing imperialists of Britain and France, regardless of the fact that they are choosing to back and about to arm rebels of North East Libya, an area that ranks as the Al-Qeeda recruitment capital of the world (as a proportion of population) as per the 31 page West Point Study that analysed the backgrounds of captured foreign guerrilla fighters in Iraq during 2006-2007.

Unfortunately, the death of all empires comes in the form of a short-lived super nova explosions of military expenditures, which is the path that the US appears to have chosen and hence the tendency to increasingly use shock and awe military force around the globe as the military industrial complex remains the only significant growth industry to restock the missiles and bombs and equipment expended.

U.S. Dollar Trend Forecast and the Dow Stocks Index

My long standing USD analysis (12 Oct 2010 - USD Index Trend Forecast Into Mid 2011, U.S. Dollar Collapse (Again)?) concluded in the following trend expectation for the U.S. Dollar into mid 2011 in that it targets a mid 2011 low of around 69-70. Currently the USD index stands at 76 which puts the trend firmly inline with the forecast expectations of some 5 months ago of where it would be by now which therefore does not require new in-depth analysis.

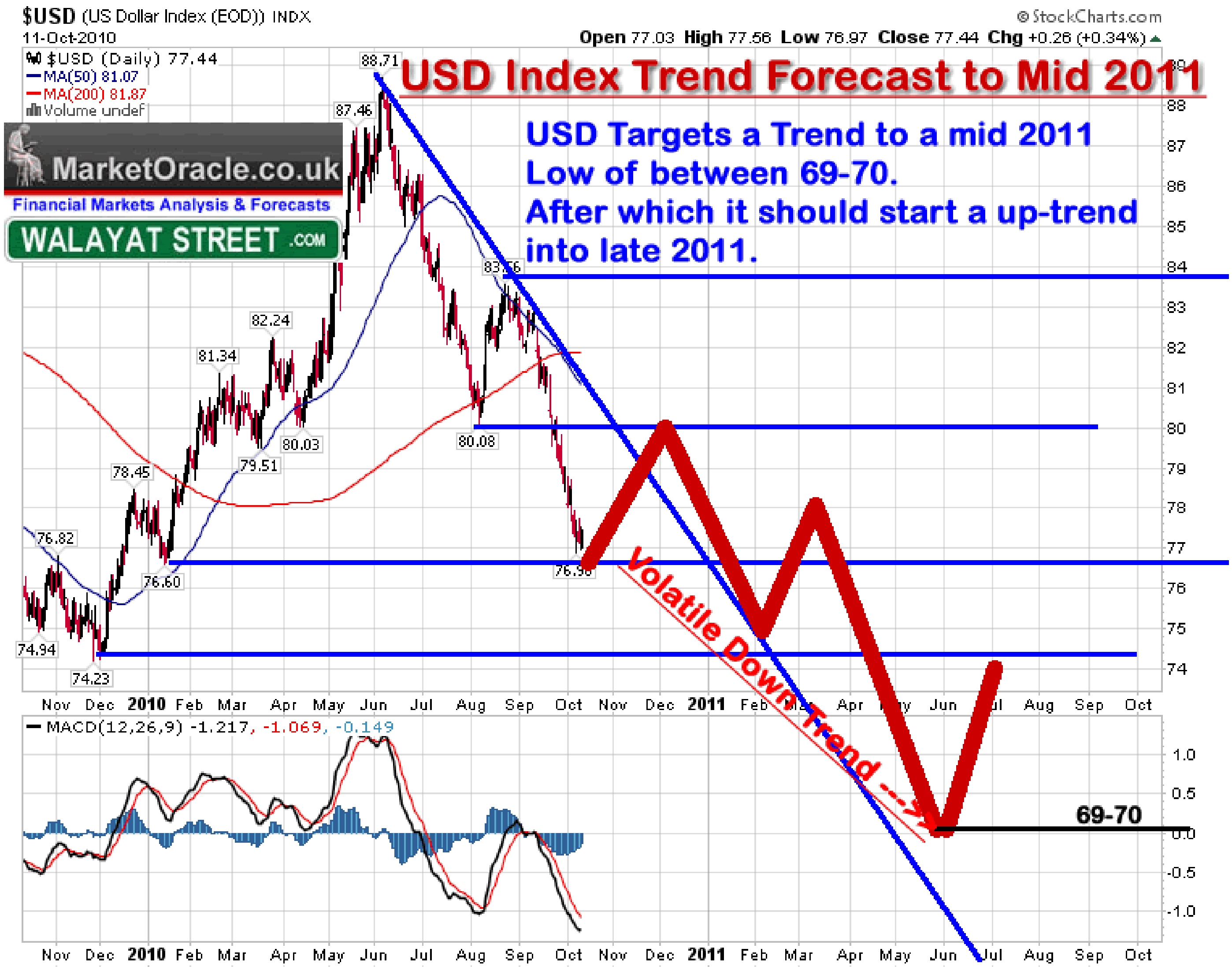


Chart courtesy of StockCharts.com

The impact of a falling USD on the stock market is two fold.

1. It inflates the dollar value of US stocks as they fall in value in foreign currencies.

2. It inflates the dollar value of foreign earnings and hence boosts U.S. corporate earnings.

Both of these are positives for stock market, which considering the above forecast for an orderly USD down-trend therefore continues to support a stocks bull market trend into at least mid 2011. Thereafter the dollar can be expected to bounce which implies stocks trend could be more muted.

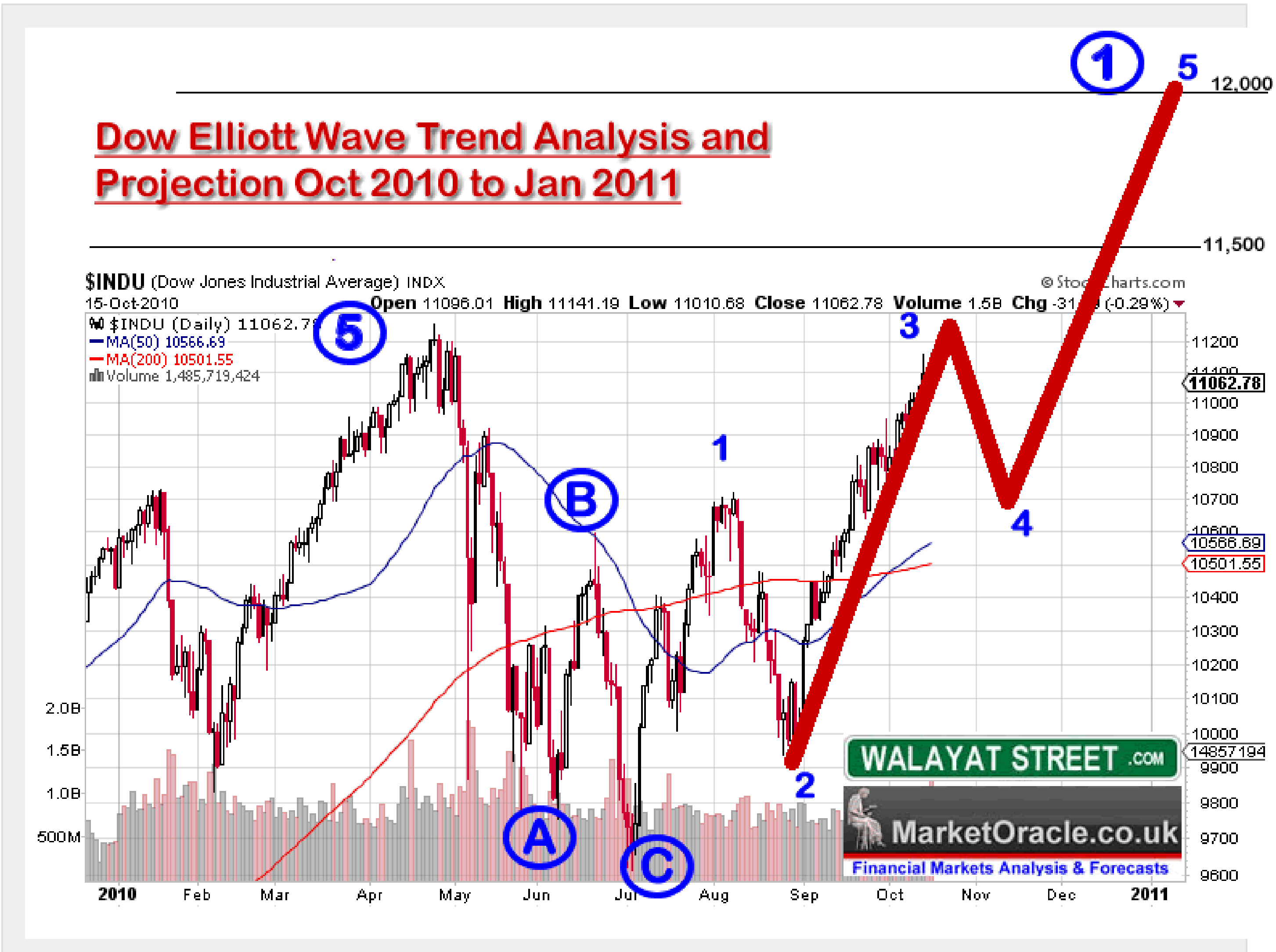
Conclusion - The above analysis suggests a bullish stocks trend into mid 2011, thereafter weaker stocks trend associated with a dollar bounce into perhaps mid September. Then keeping in mind that the USD is in a longer term bear market (continuing monster US budget deficit) which suggests that the USD can be expected to at least retest and more probably break the mid 2011 low before the end of the year would be bullish for the stock market during Q4.

Though bear in mind, that as occurred during the 1990's a strong U.S. Economy would CHANGE the dollar stock market relationship, where BOTH could rise together.

Stocks Stealth Bull Market Elliott Wave Analysis

My unorthodox interpretation of Elliott Wave Theory has proved highly accurate for the duration of the stocks stealth bull market from its birth in March 2009 in gauging the probable trend for the Dow for the past 2 years, in that there are no hard and fast rules, no tenants, no absolutes that the price must obey as per theory, because in the real world the price action is the master not theoretically what the price action should do which is why over zealot proponents of elliott wave theory have missed the whole stocks bull market, instead of which the theory is just that, a theory, so should bend or even break in the face of real time price action and not engage in the exercise of ever expanding hindsight based pattern fixing.

My last in depth analysis (18 Oct 2010 - [Stocks Stealth Bull Market Dow Trend Forecast into Jan 2011]) concluded that the stock market was about to complete a 3rd wave high to be followed by a wave 4 correction before a wave 5 rally to Dow 12000 during January 2011 as illustrated by the below original chart.



Subsequent price action showed that elliott waves played an important part in arriving at an accurate final trend forecast conclusion.

Elliott Wave Price & Time Analysis

Carrying over the wave pattern conclusion from the last analysis of October 2010, which implied that the forecast 5th wave peak would resolve in a significant correction of approx 10% that sought to correct the whole move from the July 2010 low that has subsequently come to pass.

Current EW Analysis -

- The 5 Wave advance from July 2010 to Feb 2011 took 7 months.
- The subsequent abc correction has taken less than 1 month, the preceding abc took 2.5 months. This indicates that the current correction if over is minor in nature which is inline with the wave pattern that Feb high was a minor wave high than that which terminated in April 2010 i.e. Major Wave 1 against Major Wave 5 in April 2010.
- The run up to the Feb 2011 peak had Waves 3 and 5 of comparable length in price and time and wave 1 was the shortest, law of alternating trends suggests that the next wave 1 should be longer and either wave 3 or 5 the shortest.

On face value the above EWT analysis resolves in the correction being over and that the stock market has now entered into a strong bull run to form a powerful Wave 1 rally that could last another 2 months or so.

The problem is that this resolution in EWT price pattern is too neat and tidy, rather too obvious, which suggests to me that the probability of it transpiring is less than 50%.

So how would the bears interpret the EWT price action ?

Obviously that every market high is the final fifth, this would imply that the major wave 5 was instead an A and major C was wave B and Major 1 is a C so once more terminating the so called bear market rally much as the April 2010 high was end of the bear market rally as was virtually every prior peak.

Will the stock market be devious and give the bears some more rope to hang themselves with as well as put doubt into the bulls minds ?

Such price action would be suggestive of a trading range which both fails to break higher and break lower, thus each time the Dow trades near the extremes of the trading range then it will accumulate more bull and bearish positions as each become more vocal in the certainty of the outcome at the extremes and thus preparing the way for a powerful breakout. Off course since we are in a stocks stealth bull market probability favours the breakout direction to be to the upside.

The question mark is what kind of price pattern could generate such a trend ?

That of a sideways volatile trading range before a breakout higher, to be blunt it's not important because it will only become clear in HINDSIGHT, when many analysts will use their rear view mirrors once more to have seen it all along with crystal clarity regardless of the actual facts.

Elliott Wave Conclusion

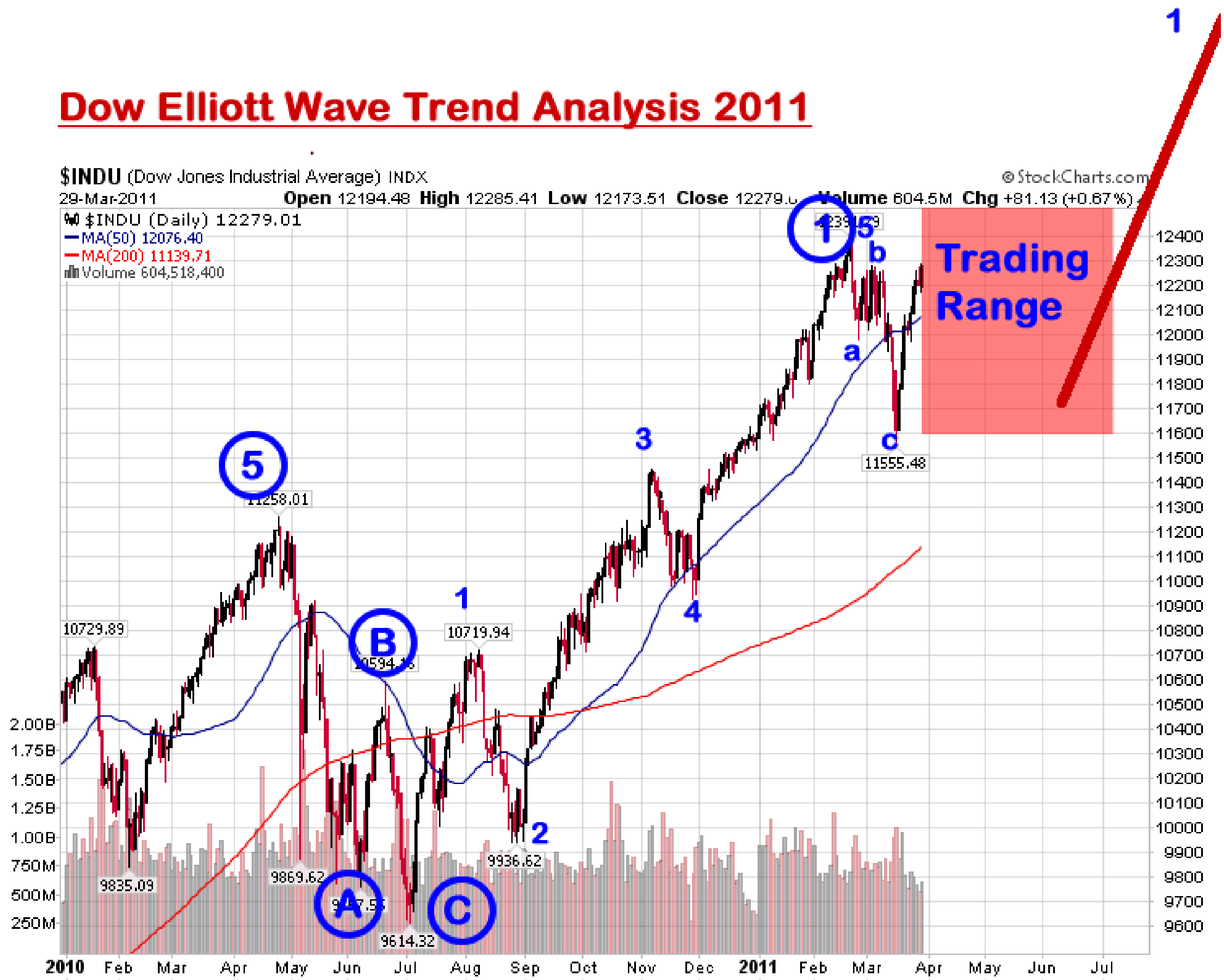


Chart courtesy of [StockCharts.com]

My interpretation of EWT suggests that the correction is going to morph into a trading range with an upward bias as the stock market attempts to break higher and thus there will be likely plenty of ziga ziga ah-ing Spice Girls style along the highs over the coming months to confuse the absolutists wave counts of both bulls and bears that will only become clear in hindsight. The overall trend of a trading range (with false upside breakouts more probable than downside breaks) that at least extends into Mid May and possibly all the way into July could look rather messy and be full of nasty whipsaws that would punish both the bulls and bears before the stock market sustains a breakout higher. The only question mark is when will the stock market break higher which my ongoing in-depth analysis will seek to resolve towards a final trend conclusion for the remainder of 2011 which this EWT analysis forms a mere part of.

However it cannot be denied that the current rally is strong and impulsive in nature so the alternative is that this time EWT will work like clock work and generate an far easier pattern for the bulls at least to interpret and act upon which suggests a strong bull run into Mid May to well beyond the last bull market high of 12,391, that will once more leave the perma-bears end of the bull market calls busted once more, before the stock market enters into a summer correction (Sell in May and Go Away).

Bottom line - There is nothing in EWT to suggest that the 2 year bull market is ending, if anything EWT implies stocks have another year of gains ahead of them. Immediate future is less certain, and leads me towards a volatile trading range with an upward bias into at least mid May and as late as early July in advance of sustained bull run out of the range. So perma-EWT bears can be expected to suffer from another year of amnesia as they scramble to re-invent another year of busted bear market calls.

The Dangers of Being Seduced by Elliott Wave Theory

Now, despite my interpretation of Elliot Wave analysis having proved highly accurate both before and since the March 2009 low and the above also very convincing on where the Dow could trend during 2011. However, before you start thinking that EWT maybe the 'holy grail' of analysis, take note that EWT Analysis on its own is just ONE component, and therefore one should not let oneself become seduced by what is highly seductive in the ease to which multiple junctures can be extended into the far distant future, which is how the highly public self professed Elliott Wave Gurus like it to be seen to be, though many of whom have apparently missed THE WHOLE STOCKS BULL MARKET as they continue to call one of the greatest bull markets in history a Bear Market rally and thus suffer from a case of permanent amnesia! which should send anyone's alarm bells ringing! Therefore Elliott Wave Theory, whilst continuing to strongly imply a bull run is expected to continue into end of 2011, however on it's own, in the long-run it is NOT going to be more accurate than a coin toss! The conclusions no matter how convincing of ANY single Component tool NEED to be confirmed by other fundamental and Technical analysis so as to arrive at a probable final conclusion rather than that which is perpetuated by EWT fanatics that have long since left reality behind them as evidenced by the fact that they still put their names to the worthless banner of a stocks "Bear Market Rally" that is anything but, under any rational measure.

Therefore despite EWT being a useful tool, I am ALWAYS on guard against being seduced by EWT as it is extremely easy to back fit onto what has already happened to imply something highly probable is about to take place when the complete opposite may be true. So yes, whilst it's implications can get the adrenaline pumping and one eager to hit the TRADE button! I do have to take deep breaths and remember that there are NO short cuts! NO matter how enticing it appears, on its own EWT in the long-run WILL NOT be more accurate than COIN TOSS !

So, always keep in your mind that the EWT component Equates to a Coin Toss Over the Long-run and you won't become seduced and end up missing whole bull markets as MANY so called MASTER ELLIOTTITIONS have proceed to do ! Because they believe their own hype, much as gannophiles have been seduced by the master price time squares that is yet again another example of coin flip analysis elevated to 'holy grail' high priesthood status so as to perpetuate myths along the same lines that religious myths of so called revelations are perpetuated to fit in hindsight any subsequent event! When in reality EWT's true purpose should be to skew ones perception of the price action thus enabling an unbiased and always skeptical analysts to interpret price action from another perspective as part of a broader whole, even this will not guarantee success because analysis and trading boils down to probabilities and NOT certainties of outcome.

Stock Market Technical Analysis

TIME ANALYSIS - The first leg of the bull market from March 2009 to April 2010 lasted 13 months which was followed by a 2.5 month correction. A similar bull run from the July 2010 low would extend into early August 2011, with subsequent correction into early October.

Bear Market and the 1930's Stock Price Chart Pattern - Stock charts from virtually every year of the 1930's have been repeatedly plastered across the blogosfear during the past 2 years to imply x,y,z is imminent, only to be immediately busted by subsequent price action, just as I have been warning they would be since April 2009, as at the end of the day fitting past price charts onto the present ONLY works in hindsight and are totally worthless when it comes actually trying to determine and monetize on trends so plays no part in this analysis, and I am sure having exhausted comparisons against the 1930's charts we shall soon start to see stock index charts conjured up from across the 130 year span of the Dow Jones index.

Chart courtesy of StockCharts.com

LONG-TERM TREND ANALYSIS- The long-term Dow chart shows an index on a trend trajectory towards a new all time high before the end of this year. There are two identified resistance points to overcome along this path, firstly 13,150 and then the actual all time high of 14,200. This suggests a correction off of 13,150 and 14,200 this year, this trend implies a break of the existing up trendline as occurred during 2010.

Dow Technical Analysis

Chart courtesy of StockCharts.com

TREND ANALYSIS- The Dow is at the bull market high resistance level where trend analysis suggests a further correction is likely that could extend into late April / Early May before the breakout higher off of a technically stronger higher low before the next phase of the bull market breakout towards 13200 by Aug / Sept, followed by a further correction.

WESTERN STOCK MARKETS QUICK TREND REVIEW

- Australia - Has been in an effective trading range for the past 18 months, the overall pattern is corrective and implies resolution to the upside.
- France - The CAC40 exhibits a similar trend to that of the Australian market in that the market is pending a sustained breakout higher, both show relative weakness.
- Canada - Is showing relative strength and is acting as a leading indicator of trend for the Dow which also confirms earlier economic analysis that points to US future out performance over many other western and emerging markets.
- Germany - The Dax is another index that shows continuing relative strength, but with greater volatility with a tendency to move in step with the Dow (most of the time).
- Japan - Remains a basket case, obviously the Tsunami and nuclear crisis has not helped, sickly under performance is the overall trend.
- UK - See separate section.

Overall is that of markets either breaking higher or within trading ranges ahead of a breakout higher (even for Japan), so supportive for a continuation of the global bull market in stocks.

DOW GOLD - A number of analysts obsesses over the Dow / Gold Ratio as if it means anything. The bottom line is you cannot buy Dow stocks with Gold and nor can you buy Gold with Dow stocks. You might as well price Dow in pork bellies or wheat, or any other commodity for it has no relevance. For there to be a relevance markets have to be in the same sector i.e. Dow compared to global stock market valuations.

INTERMARKET ANALYSIS - Stocks and Commodities continue to trend higher together which are usually competing asset classes, but falling bonds more than liberate enough capital from that market to feed both bull markets. In fact contrary to the consensus view that bonds and stocks should move in the same direction, a weak bond market gives the Fed even more impetus to pump liquidity into the financial markets. Also as mentioned earlier in the interest rate analysis, rising bond yields are indicative of an improving economy.

SUPPORT / RESISTANCE- The Dow is trading at the bull market resistance area of 12,400. Key resistance levels beyond this level are 13,150 and the all time high of 14,200, which can act as two points for future corrections. Support lies along a string of early March highs and lows in the range of 12,000 and 12,250, which are likely to contain any imminent correction.

MOVING AVERAGES - The Dow continues to trend well above its 200 day moving average (11,170) with the recent correction helping to narrow the gap that still requires further consolidation before trending higher. Expectations for a correction are further confirmed by the strength of the break of the 50day moving average during March which suggests several more touches or breaks of the 50day are likely which is currently at 12,100.

PRICE TARGETS - Upside price targets are resolving towards 13,150 and the all time high of 14,200. Downside price targets resolve towards 12,000.

MACD - Long term MACD is on a trajectory that points to the bull run continuing into 2012. Immediate MACD suggests that the current bull run has several months to run, therefore any imminent correction should be short in duration and unlikely to continue into May, a further mild correction can be expected during July / August.

VOLATILITY (VIX)- Stock Market volatility as measured by the VIX has fallen back from a peak of 30 made earlier in the month. The overall trend trajectory is that of reducing volatility as each successive spike has reduced in intensity despite the turmoil across the world, this is suggestive of milder corrections ahead and more powerful uptrend's going forward for the next 12 months at least and probably longer as investor confidence continues to turn more bullish in the face of a relentless bullish uptrend and therefore investors become more eager to buy the dips as stocks continue to rise a wall of worry.

VOLUME - Volume has continued to remain generally weak throughout the rally, which has been one of the main reasons why so much commentary has been bearish during the past 2 years. However, this is perfectly inline with that of a stocks stealth bull market as it implies that this rally has mostly NOT been bought into. Therefore, I continue to expect heavier volume on the declines and lighter volume on the rallies all the way to a new all time market high.

SEASONAL TREND - The seasonal trend is for a rally into early May when the "Sell in May and Go Away" (after having bought during the preceding November) trend implies a correction into early September for a continuation higher into year end. Instead this year it may be a case of Sell in April and Buy in May. Therefore all those betting on seasonality by waiting to sell in May are likely to get their fingers burnt during April and probably end of selling just as the market bottoms in May.

PRESIDENT CYCLE YEAR 3 - We are now well into the third year of Barack Obama's Presidency, statistical analysis reveals that most of the third year tends to be a great period for stocks showing an average gain of 20%, which is not so surprising as Presidents tend to start looking towards getting re-elected (or their party) and hence boost the economy. So far stocks are up approx 10% from November 2010, another 10% would put the Dow at 13,640, so confirms an overall bullish outlook for the Dow for the remainder of 2011, with a possible dip during November.

Formulating a Stock Market Conclusion for 2011

The overwhelming conclusion is that of stocks remaining in a MULTI-YEAR BULL MARKET that is being driven higher by a number of fundamental factors such as corporate earnings OR Fed MONEY PRINTING (POMO). It does not matter which is prevalent at a particular point in time as the market SPIRALS HIGHER in reaction to waves of INFLATIONARY buying pressure, something that the dark pools of capital recognised right at the birth of the Stocks Stealth Bull Market in March 2009 (15 Mar 2009 - Stealth Bull Market Follows Stocks Bear Market Bottom at Dow 6,470) and have since been eager to bid the stock market higher whilst MOST have FAILED to participate on the rally to date as they have been fooled into waiting for the bear market bottom to materialise (or even worse have been actively engaged in betting against the bull market) and will continue to do so all the way to new all time highs which is why this remains STOCKS STEALTH BULL MARKET.

The same INFLATIONARY forces are driving up ALL assets such as commodities, whilst at the same time holding up other weaker assets such as housing that should be in free fall as the bubble baton has been passed from one asset class to another.

In our fiat currency, big government deficit spending, debt accumulating world, governments CANNOT ALLOW FOR DEFLATION, not only that but inflation can literally always be created at the press of a button, therefore as asset prices are leveraged to consumer prices that is where wealth protection strategies should continue to be focused.

The reason why many analysts can miss whole bull and bear markets is because they get attached to one or two elements and then run a mile with it, such as the rise of China and India and demise of the U.S. along with much of the west, or the impact of demographics as ageing populations hit the west hard, though China will be hit even harder in the 2020's, or the fact that the US is on the path towards bankruptcy (by means of high inflation), well yes it is, but so what? Because that path will contain many bull and bear markets, the consequences of a bankruptcy event are probably many decades away. So one needs to be focused on the time horizons at hand not take a view of the world say 40 years down the road when there is so much that can happen between now and then (as the Japan environmental and nuclear disaster illustrates) that can completely flip the future world view on its head. So what is going to happen or not happen 40 years from now is pretty much irrelevant in determining the stock market trend for 2011.

Key points to consider are that the US economy is strengthening, the world economy is improving (despite the Japan black swan), that slowly the Eurozone is immunizing itself form the bankrupting PIIGS, and without repeating what's stated at length in the Interest Rate Mega-Trend Ebook (FREE DOWNLOAD) that despite the bankrupt banks still remaining bankrupt, but less so than where they were a year ago, and so long as they remain busted the worlds central banks fearing financial armageddon are continuing the flow of easy money so as to transfer tax payer / savers wealth onto the balance sheet of the bankrupt banks which looks set to continue for at least the remainder of 2011. Yes all this money printing primarily as an aid for the bankrupt banks to put even bigger bets on the derivatives markets that is INFLATING asset prices such as stocks and commodities. Yes all this also means ever higher real world inflation which stock prices are leveraged to, but again that was covered at length in the Inflation Mega-trend Ebook of January 2010. (FREE DOWNLOAD)

The technical picture remains bullish on near every level for 2011, as much of the consensus view on the impact of the likes of rising interest rates are just flat out wrong! Rising Interest rates are BULLISH for stocks! It's what happens AFTER interest rates have risen that hits the stock market and economy, and not during the actual trend. Even the highly contrary Hindenburg Crash Omen has been doing the rounds again in the mainstream press just as the market bottomed (why does the financial press never learn?).

Therefore there is nothing in this analysis to suggest that an end to the stocks stealth bull market is imminent, far from it, I see no reason why the stock market should not continue trending higher well into 2012 (yes there will be corrections for the highly vocal perma-bears to pounce upon once more to announce an end to the non existant bear market rally).

So the question left to answer is to what heights will the stock market reach by the end of 2011 / early 2012, which I next attempt to conclude towards.

STOCK MARKET FORECAST 2011 FINAL CONCLUSION

The big picture is that of the stock market targeting a trend towards a new all time high either by very late 2011 or early 2012 i.e. a break of Dow 14,200 which would represent a gain of more than 15% on the last close (12,320) or nearly 2000 points.

Breaking the forecast trend down suggests a short trading range into late April, with the main trend of a rally into late August / Early Sept 2011 in the region of 13,400, followed by a further brief correction into early October before the rally to a new all time Dow high by end 2011 / early 2012, as illustrated by the below forecast trend graph.

Risks to the Forecast

That the current anticipated consolidation trading range actually turns into a market top - After all the banks are still bankrupt and continue to play double or nothing in the derivatives markets which the central banks are attempting to cover up the consequences of from main street so as to prevent public panic manifesting itself in runs on the banking system. So yes there is always a big dark cloud hanging over this stealth bull market which is why it is a stealth bull market because it is easy to find reasons of why it should have ended within a few weeks after it began!

And then we have the inflation mega-trend juggernaut that has taken off in the UK and is soon to make an appearance in the US, which could derails the stocks bull market, but central bankers are practices in the dark arts of pumping out economic propaganda to manipulate the inflation expectations of the general population via the vested interests in the mainstream press who in a matter of fact way paint a picture that is totally at odds with the reality of what their viewers / readers experience.

Therefore the risks are always there but on the balance of probabilities (and that is all that it boils down to i.e. probabilities), and contrary to much of what you will read in the mainstream press, I rank an end to the stocks bull market during 2011 as a VERY LOW probability, despite REAL inherent risks that are NOT new but have existed for the duration of the now 2 year stocks stealth bull market.

The SHOCK MARKET BUBBLE

I call it a shock market rather than a stock market because ALL market trends are trending towards a bubble that bursts in spectacular style because of the two factors involved of a. central banks trying to generate economic growth by means of the wealth effect which increasingly entices speculators to pile into the trends as the feed back look of higher prices triggers more speculative buying in an ever increasing frenzy of irrational activity that sends both stock prices and the wealth effect soaring in to the stratosphere, triggering consumers to buy junk that they don't need or will probably only ever use once. Given that we are in a stocks stealth bull market that has passed by the vast majority of investors illustrates the fact that this stock market bubble has barely begun to be built, we are several years away from the SHOCK MARKET BUBBLE stage, at which point I will be handing over my stock certificates to the last to buy before the next crash.

You know when we will get there because those that are so vocally bearish today will have thrown in the towel and turned into bulls (of course re-inventing history as to what they had actually stated when stocks were cheap!).

You may continuously hear that investing in the stock market is akin to gambling in the casino, that's not entirely true because where the stock market is concerned the hand you hold does not particularly matter, good or bad they are on balance the same, the only thing that matters is that you buy when the hands are cheap and sell when the hands are expensive, as at the end of the bull trend, even the best hands will be crushed nearly as badly as the worst hands. So investing in the the stock market is NOT the same as gambling in the casino as long as one does not get influenced by market sentiment and let emotions rip, there should be no sentimentality involved as we witness today with those investing in the likes of Apple.

The Stocks Stealth Bull Market Mega-trend

Where are we in terms of the big picture?

Considering the forecast trend path and the sum of this analysis suggests we are probably around the mid way point of this bull market in time, which therefore suggests that this bull market will significantly break above the ALL time Dow high.

Now, bears should not take the above to imply that the bull market will end north of Dow 15k in about 2 years time, that will be for stock market update for 2013.

Another thing to consider is that a series of bear markets and financial crashes over the past 11 years has succeeded in keeping many potential investors scared of investing in the stock market for a generation, which tells me that the market is primed for a bull run for not just this year but for several more years, because we are just so far from the herd creation stage that is associated with many final blow offs, and remember all financial crashes mark the starting points for the next stock or shock market bubble .

Lastly, I give thanks to the perma-bears and Dr Dooms and other media star 'analysts' that spend more time in the tv studio make-up rooms than in front of trading screens for promoting the bearish side. For it is a zero sum game, which means those smart / lucky enough to have monetized on the stocks stealth bull market to date need suckers betting against the bull market to fund the profits for several more years and many thousand more points on the Dow.

FTSE 100 Stocks Index Forecast 2011

Whilst the US economy is expected to outperform the UK across most key measures for the whole of 2011 and probably several more years beyond, which on face value implies lack of performance for the FTSE. However the FTSE is not exactly an index that tracks the prospects for the British economy as over the years the FTSE has incorporated waves of foreign companies listed on the London Stock Exchange that have very little if any activity in the UK such as the big central asian, african and australian mining companies, much more so than any other leading country index such as the Dow, Dax or CAC.

This is further enhanced by the fact that most of the remaining UK based FTSE companies are multi-nationals, deriving a large part if not most of their revenues and profits from over seas activities which includes the likes of British Petroleum which is not really British when you consider that most of its trading activities take place over seas from the highly profitable and not so profitable (Gulf of Mexico). The net effect is that only an estimated 25% of FTSE 100 index companies earnings are derived from the domestic economy, which is why the FTSE is more sensitive to the exchange rate than other indices and also can be expected to track the Dow Jones 30 index more closely than other country indices which therefore means an in-depth analysis is not necessary, as the overall trend patterns should not be too dissimilar to that of the Dow. The only allowance to be made is in terms of the impact of currency trends between Dollar and British Pound which earlier analysis forecasts for a 17% appreciation against the dollar which therefore implies relative trend weakness against the dollar priced Dow Index.

Technical Analysis

- The FTSE is expected to continue to show under performance against the Dow both as a consequence of a stronger currency and weaker economy. This weaker trend is clearly manifesting itself by example of the FTSE falling well below the April 2010 high during mid month, which compares against the Dow that bottomed some 400 points above the April 2010 high.
- Key resistance lies at 6,100 which is expected to both act as current resistance and future support as well as the 6000 area around which the FTSE can be expected to gravitate.
- The Trend channels suggest an end 2011 range of between 6,400 to 6,800 - or a gain of between 8% and 15% on the last close of 5,908, actual performance can be expected to be nearer to 6,400 than 6,800.
- Long-term support and resistance comes in at 6,400 and then 6,750, which is supportive of the trading range analysis.

FTSE Forecast Trend Conclusion

The FTSE is expected to follow the Dow trend after spending substantial time during the year gravitating around the 6,000 level. The FTSE targets a trend towards an end year range of between 6,750 and 6,400 with the most probable year end high in the region of 6,500, thus a gain of 10% on the last close. Immediate price action targets FTSE 6000 as we move into early April, then a correction that targets 5,800 as we move into early May, i.e. in line with the trend expectations for the Dow.

FTSE 100 Stocks Index Trend Forecast 2011

Emerging Markets Outlook 2011

The world population now stands at over 7 billion, an increase of more than 50% over the past 50 years and is expected to increase again by another 50% over the next 50 years towards a target of 10.5 billion. However the forces that are expected to drive food and commodity prices ever higher are even more notable when one considers the growing size of the middle classes of emerging market countries such as India and China that will demand a similar standard of living to that enjoyed in the west that will result in the doubling of the worlds middle class within much shorter space of time and therefore resulting in a far greater impact on commodity prices than which is implied by the overall rate of population growth.

Whilst the population growth will continue to drive the price for all scarce commodities inexorably higher (allowing for seasonal variations), however as correctly identified in the Inflation Mega-trend ebook (Jan 2010) the agri-food's sector in particular is expected manifest the inflationary mega-trend to a greater degree over the coming years, as no matter what happens to the worlds economies during the next decade as recessions come and go, an overall growing and more affluent world population will continue to increasingly favour a more varied and costly food diet. This therefore brings my first focus of the inflation mega-trend to agri-food's. Especially as wages tend to be far more sensitive to food prices than that for other goods and services, therefore world government's are expected to continue to adopt inflationary responses to future food crisis which will continue to feed the overall long-term wage / food price growth spiral at an ever higher velocity especially for the developing countries which is a strong contributory factor towards the inflation mega-trend.

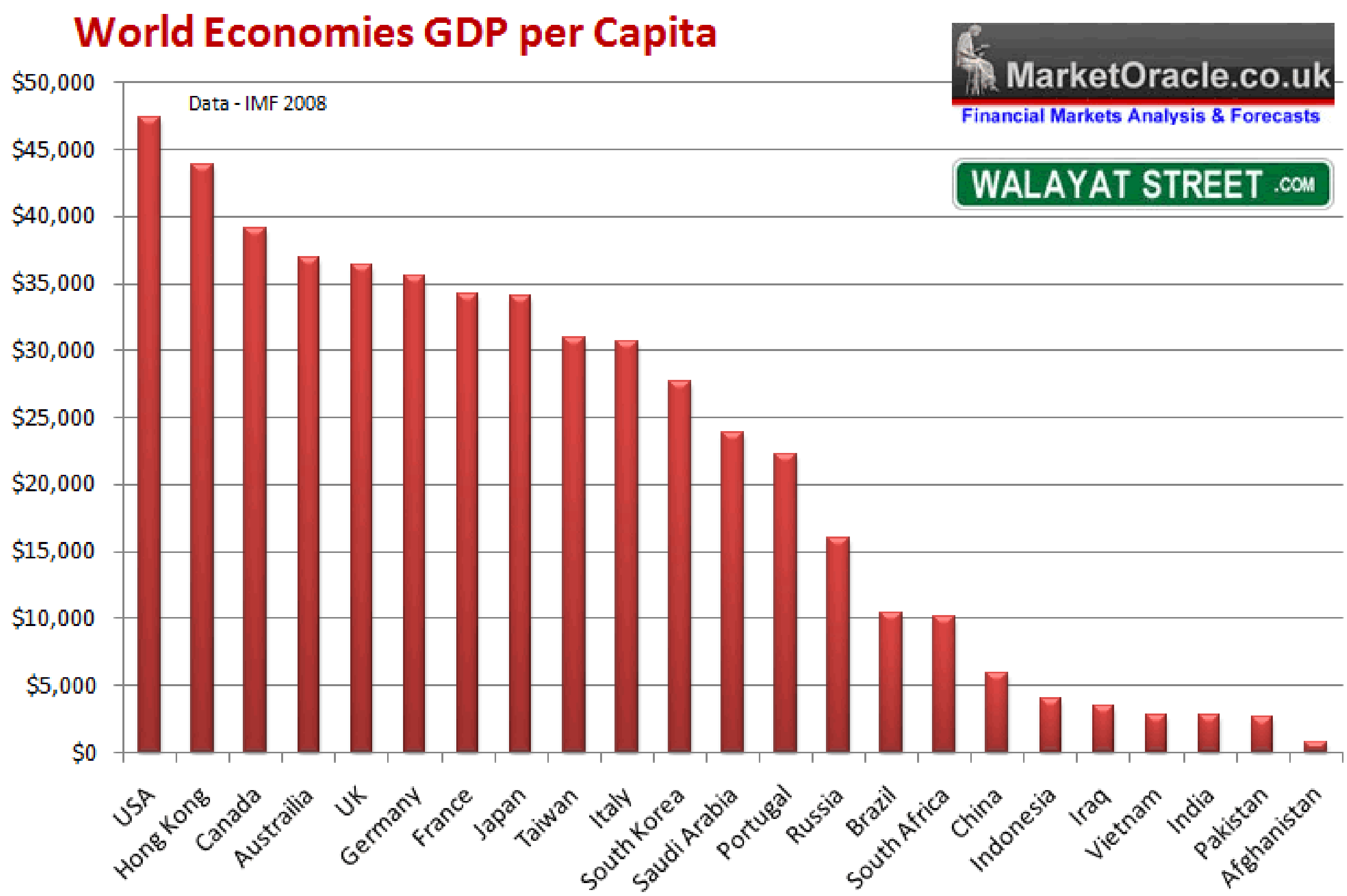
All investors need to have portfolio exposure to emerging markets because that is where most of the new economic growth is going to come from over the next 10 years at least. Whilst the western economies may experience average growth of between 2% to 3%, the emerging markets are expected to experience growth of between 5% to 7%, compound that figure annually and one gets an even better picture of the wide gap in the growth prospects.

Whilst many analysts worry about over heating developing economies and growing bubbles, although forgetting that there is a fundamental shift taking place in terms of risk, as illustrated by the general high indebtedness of western economies over many developing economies, which therefore implies that instead of carrying a risk premium to the west, it is the western markets that should be carrying a risk premium in the pricing of assets.

Furthermore as long as the economies retain the following characteristics then over the long run the risk of losses or underperformance is further reduced. Some of the key characterises that I look for are:

- Political Stability
- Economically liberal in terms of free market economics
- Literate population
- Abundant Natural Resources
- Environmentally stable
- Favourable demographics
- Low debt to GDP ratio

And last but not least is the per capita graph capacity as illustrated by the following graph:



So whilst the mainstream financial press continues to waste another year worrying about the credit bubble in China, however the economic growth to date has barely bridged the huge gap between the emerging market giants and established western economies which implies a huge potential for the gap to narrow as manifested by strong growth in the emerging markets and below trend growth or even economic stagnation for many western economies which means that capital investments made today can be expected to return significant real capital growth over the next 10 years on the basis of real GDP growth that typically targets a growth increase of 100%.

Global Warming Impact on Emerging Markets

The most immediate impact of global warming is on agricultural production due to desert expansion and variability of fresh water supplies. This will most likely impact the 2.5+ billion people across China and India where the share of imported food supplies will continue to increase, thus highly inflationary domestically which will undoubtedly be exported abroad in terms of higher costs of production and supply of services.

With the continuing sea level rise spelling even worse disasters for low lying countries such as Bangladesh which will have increasing inflationary consequences due to millions of people becoming climate change refugees.

Demographics

Many analysts for a number of years have been mistakenly fixated by the so called deflation of Japan being replicated in the West whilst completely forgetting the fact that what is driving Japanese stagnation is demographics i.e. the large ageing population that is not as apparent to anywhere near the same extent in either the UK or US, as both have active and favourable policies for IMPORTING young and productive populations from abroad. Though this does put an investment time frame limit on the developing economies such as China which will eventually hit their own demographic time bombs similar to that of Japans, where China's working age population is expected to peak by 2020 and then decline as the burden of the elderly grows. But still offer a good 10 years of strong growth before economic activity can be expected to taper off as a consequence of demographics.

CHINA

(Inflation Mega-Trend Ebook Analysis update) The Chinese fast growing economy with consistent annual growth rates of 10% per annum is on course towards becoming the worlds dominant economy over the next 10 - 15 years, with GDP per capita at just $6,000, China's economy retains the capacity to keep doubling in size several more times before growth rates seriously start to diminish, therefore despite the growth to date the economy still has a long way to go towards even reaching half the per capita income of that of the western economies.

The financial crisis had offered investors a great once in a life time buying opportunity to buy into China's growth story at less than SSEC 2000. Maybe we will get some more chances over the coming year though probably nowhere near the depths of what we saw during 2009, therefore the best strategy is to scale into China over a period of time as I mentioned as part of my bear market accumulation strategy way back in October 2008 (Stocks Bear Market Long-term Investing Strategy).

With an estimated $3 trillion of reserves and growing by some $400 billion per year, little debt and a very high savings rate of over 30%, China can afford to keep going on highly expansive inflationary stimulus spending sprees so as to buffer its economy from any future economic and financial crisis, whilst in the west each new stimulus will be financed by ever more debt that will have to serviced by means of interest payments in large part PAID to CHINA.

Chinas first growth phase was led by export growth that has been gradually feeding into domestic consumption growth which in turn is being followed by the financial growth phase. Which means as long as China does not make the same mistakes as western economies by putting a debt noose around its neck, then China remains a prime long-term investment destination.

The ultimate impact of the Chinese economic super power is that the world will increasingly turn Chinese, as more wealthy Chinese travel abroad so will tens of millions of wealthy Chinese choose to become expats living abroad, especially in the western english speaking world which will likely promote greater economic ties and economic dominance of China across the world as a new economic empire is born, therefore make room for the next big wave of human migration from east to west that will seek to buy up large tracts of the remaining means of production and probably be invited in by desperate government's eager for foreign investment to spark life into stagnating regions.

China Government Competent

Whilst no one in the west would want to live under a totalitarian one party state. However the Chinese government has shown itself to be fairly competent in managing the economy, far better than many western democratic government's which continues to surprise many people that look to the experience of the last communist giant, the Soviet Union which collapsed into hyperinflation. It could be said that being a totalitarian state enables decisions to be implemented far more quickly and similarly any mistakes made can be far more easily brushed under the carpet.

Whilst the western government's have been engaged in piling debt upon debt for consumption, the Chinese have been busy utilising hundreds of billions of dollars of stimulus spending to build up China's infrastructure by building new cities, roads and railways, all of which generates capacity for future economic growth.

China Blowing Bubbles

Yes strong economic growth and high liquidity i.e. bank lending is leading to bubbles that will burst such as in housing, but the Chinese fiscal position is such that the government can keep blowing bubbles as long as it continues to import foreign currency reserves that can be utilised to cushion the blows which therefore means that the post bubble crashes remain long-term buying opportunities, as the crash of the Chinese stock market to SSEC 1,600 in October 2008 proved.

China Exporting Inflation Abroad

As warned of in the Inflation Mega-Trend Ebook, China's fast growing and overheating economy is inevitably going to experience significant price inflation. However at the moment China actively intervenes to keep its currency pegged to the U.S. Dollar, that has contributed to an enormous trade imbalance with the U.S. resulting in huge currency reserves that are a natural boost to the Chinese currency were it not for the high level of currency market intervention.

As the inflation mega-trend unfolds and inflation has risen in China, then China can let the Yuan appreciate against the other debt ridden currencies over time which has the effect of exporting inflation abroad as the costs of imports into China falls. This will increasingly become the case as the size of the domestic consumer sector grows over the coming years which will feed higher inflation in western economies.

An appreciating Yuan will have the effect of boosting profits for foreign investors when converted back into their own depreciating currencies, especially as the Chinese government will increasingly seek to promote the Yuan as an alternative world reserve currency to an highly indebted US Dollar, where such a trend would significantly magnify profits from investments in China.

China to Drive Foreign Stock Markets Higher

China is drowning in a sea of dollars that it cannot sell as that would undermine its dollar currency peg objective. However China can achieve the same thing whilst at the same time reducing its risk to a depreciating dollar by investing in dollar assets such as stocks, ETF's and commodities. Therefore those that continue to seek a bear market in U.S. and other western stock markets fail to recognise the huge potential pool of investment funds that are expected to continue to flow into western and other emerging market stock markets over the coming decade and hence contributing towards driving the stocks stealth bull markets higher.

Though it is not necessary to know which stocks China is buying as it is obvious that a resources hungry China is clearly targeting the resources, and energy sectors, where stock buying would tend to lift the whole sector. China will also be seeking to invest in the large liquid stocks and ETF's with strong cash-flows and profit potentials which the stocks investment section seeks to illustrate.

China Intellectual Growth Problems

One possible fly in the ointment is future political stability, as so far the 'communist' in all but name one party state in China has been able to keep its peoples eyes focused on economic prosperity and not to stray into political activism, whether at some point in time a crunch point comes when a more wealthy educated people demand more openness and freedom of expression.

Another problem that follows on from the authoritarian government structure is that China's access to the information age is very limited, i.e. web searches are usually blocked and user access to the internet closely monitored. This implies that China is unlikely to replicate the global growth in the production of consumer durable goods on to the internet technologies, which will still largely remain something in the hands of the democratic relatively free English speaking world as long as they do not erode their own countries freedoms by means of the states misapplication of technology to prevent free thought.

Chinese 10 Year Stock Market Outlook

As stated in the Inflation Mega-Trend ebook - A sustained average growth rate for the Chinese economy over the next 10 years of 8% per annum implies a GDP compound advance of 115%. China's Price / Earnings ratio currently stands at approx 24, which whilst still high is down from the eye watering days of the bull market peak that had the P/E as high as 70. Still 25 is not historically cheap and therefore despite the high growth potential of the Chinese economy, this is expected to narrow over the coming decade towards an average of 18.

January 2010 - *Therefore taking a P/E of 18, and GDP advance of 115% and applying this to the current SSEC level of 2990, this would therefore suggest a fair value for the Chinese Stock market of approx SSEC 9,200 in 10 years time. Off course the actual trend is expected to function as a consequence of speculative runs to over valuation and subsequent corrections into states of under valuation as we saw with the 2007 peak of 6,250, a stock market boom into a bubble in 10 years time could see the SSEC as high as 17,000 against the current price of 2,990.*

Chinese Stock Market Trend Forecast 2011

The Chinese stock market doubled after the powerful rally off of the October 2008 low of 1664 to a high of 3,478. Subsequently the price action has been in a long extended trading range where most of the price action has been contained between 3,300 and 2,500, during which time the price / earnings ratio of the market has come down from a lofty 33 to a more acceptable 24.

Technically the market continues to mark time as it prepares to break out higher. It is difficult to say when the market will break higher, but as evidenced by the steadily falling P/E, an upside breakout is increasingly becoming more probable, which therefore means any further trading activity towards the bottom of the range represents further good long-term accumulation opportunities, especially as the impact of china currency appreciation is not reflected in the SSEC stock index performance.

Chart courtesy of StockCharts.com

In conclusion the China is a long-term buy, China remains one of my KEY investment destinations with an over-weight rating as by far the single greatest source for future world economic growth will be from China. Not only is the country swimming in cash but foreign investors will be ever eager to plow more of their own money into China. So I am firmly putting my money where my mouth is by remaining invested in China. Therefore I will let others worry about the potential black swans and stay scared of investing in China.

China Stocks Crash ?

2008 through to 2011 have shown us that the markets are extremely volatile, so yes the speculative Chinese stock market could crash, but as long as the fundamentals remain in place i.e. that the Chinese economy continues to grow strongly as it did throughout the recession then market crashes are excellent long-term buying opportunities. Think of it this way, instead of buying the market at 24X earnings a 33% stocks crash offers you the opportunity to buy the same market at X16 earnings. Just as the crash to below SSEC 2k presented a golden opportunity to buy China in 2008.

Foreign Investors Currency Advantage

Foreign investors should also take note of the strong currency advantage of investing in China, as the Yuan will eventually appreciate against all fiat currencies. This means that over 10 years investors in say sterling could see their returns increase by as much as a further 50%, as the current trade imbalances are not sustainable, i.e. last year (2010) China exported $365 billion to the U.S. whilst importing $92 billion, which should have resulted in a significant Yuan appreciation, instead of the 3% or so move during the past 12 months which strongly suggests intense currency market intervention to hold the peg to the dollar that will culminate in a series of rapid revaluations, thus driving the value of Chinese investments higher in currencies such as sterling and the dollar. Therefore foreign investors into China are effectively buying an inflation hedge on top of capital growth as a consequence of economic growth.

China ETF's

There are several liquid China ETF's available including iShares China Index Fund (XCH), iShares FTSE/Xinhua China 25 (FXI) and SPDR S&P China ETF (GXC) as a starting point for your own research.

INDIA

(Inflation Mega-Trend Ebook Analysis update)

Indian Growth

India presents a higher risk than China, but also a higher potential for profit with GDP at approx $3,000 per capita. There exists the potential should the Indian government continue to seek to pull its people out of poverty for a long run of consistently high economic growth.

India's economy is presently growing at 8% per annum which could be sustained for the next 10 years would result in compound growth of 115% on current GDP, which will undoubtedly be reflected in the stock market indices that could extend to three times the GDP growth rate, therefore despite the strong rally off of the March 2009 low, the Indian stock market still presents a good opportunity over a 10 year time frame.

India Risks

The primary risk to India is lack of competency in its governance which yields poorly thought out economic decisions that has culminated in the country periodically running a high budget deficit though which has fallen from 10% to an expected 5% for 2011-2012.

India's inability to control high population growth, coupled with the impact of climate change that will hit India particularly hard as the inflationary mega-trend manifests itself more in India than China which sows the seeds of future population driven food price crisis, that even now is already manifesting itself in a high food price inflation of over 15% which generates much discontent amongst India's hundreds of millions of poor that forces the government to maintain high budget deficits rather than to introduce austerity measures.

Therefore investors in India are likely to have bumpier ride in real terms and a potentially shorter window of opportunity for profit from investments than from China, as India's greater risk implies perhaps a decade of high growth before population growth, debt and climate change evaporate the high growth potential of the Indian economy towards a period of stagflation especially considering an already persistently high inflation rate that has ranged as high as 16% during the past 2 years that has succeeded in significantly eroding the purchasing power for Indian's as evidence of a badly governed high inflation prone economy.

Indian Stock Market 10 Year Growth Prospects

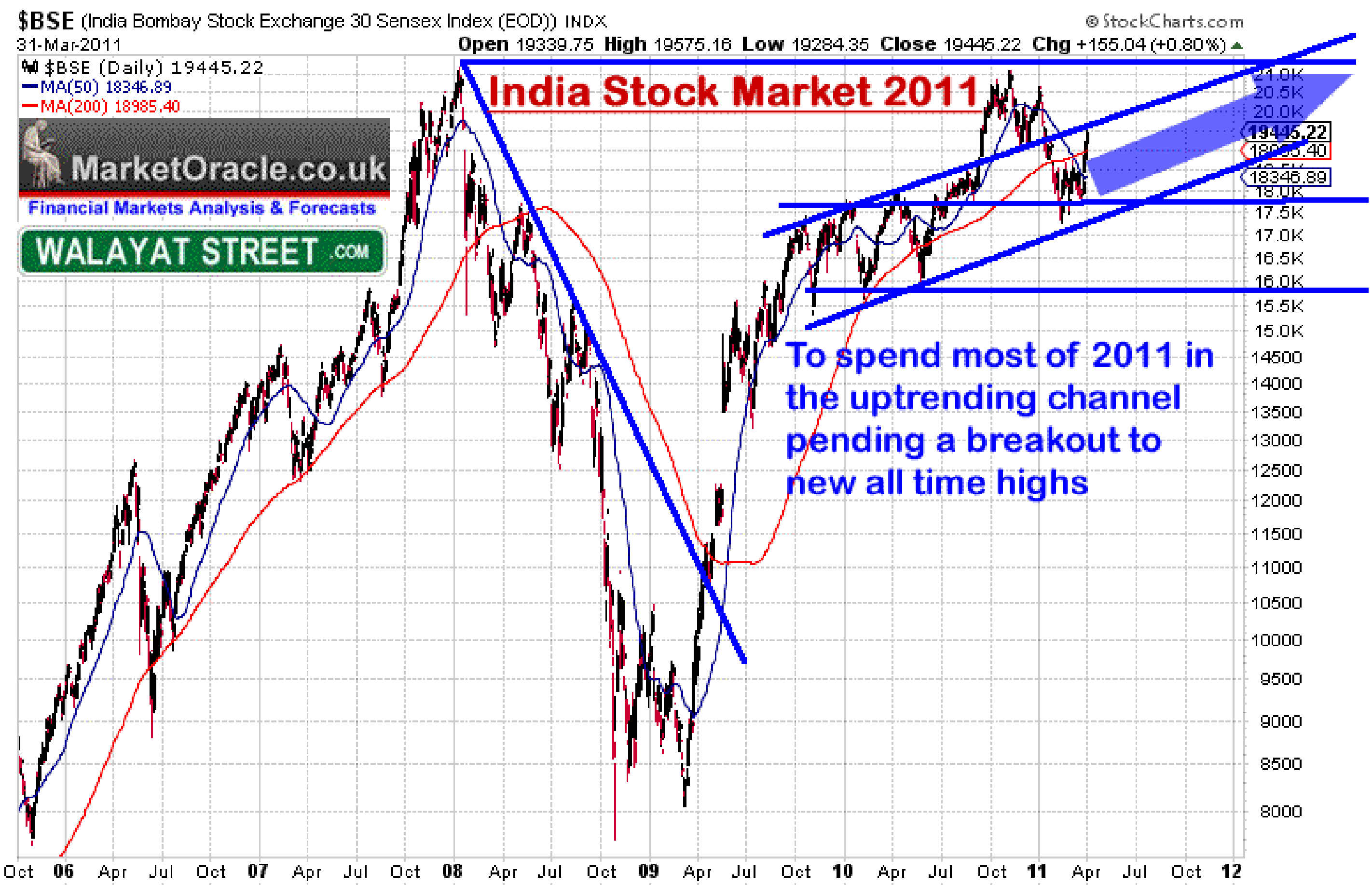
The Indian stock market is priced at about 21 times earnings, which against GDP growth expectations of 115% compounded over the next 10 years implies if stocks remained at current price levels the P/E would be at just 4.7. Whilst in 10 years time a more maturing and environmental sensitive economy may not be able to demand a P/E of 20, it should still be able to muster a PE in the region of 12 to 16 which therefore suggests a stock market advance of between 300% and 450% onto the level of 16,350 (as per original analysis Jan 2010 Inflation Mega-Trend Ebook) i.e. implying that the BSE could be trading at a level of between 50,000 and 73,000 in 10 years time (2020), if not higher if the budget deficit problems and total debt problems can be addressed.

Indian Stock Market Trend Forecast 2011

Whilst the big picture strongly suggests that the BSE index will multiply several times over the coming decade, however the picture for 2011 is much more benign and again related to India's poor budgetary position and high inflation rate, the budget deficit until relatively recently has been on par with that which has sent many western economies such as Ireland and Greece crashing over the edge, therefore risk averse investors shying away from countries with large budget deficits and debt burdens implies a great deal of volatility for the Indian stock market which implies that Indian stocks are unlikely to show any further significant advance during 2011 especially in terms of a sustained breakout to new highs which despite high underlying inflation that has the tendency to inflate asset prices in the debased domestic currency.

The technical picture is that of an continuing up trending channel that so far has been in force for the whole of 2011, with the most recent price of 19,445 attempting to breakout higher which then targets resistance in the all time high zone of 21,100 to 21,200. Whilst support lies at 17,500 and then again at 16,000.

Therefore probability favours the BSE trending within the Up trending Channel for most of 2011, as it resolves towards a breakout to new all time highs late 2011 / early 2012 as the ultimate resolution to the trend channel.



The bottom line is that India is a high inflation prone country, therefore investors need to be on guard against becoming overly exuberant by over committing in the face of an inevitable BSE index breakout higher, as high inflation ensures that a large percentage of the gains will be illusory when converted back into your own currency, so keep a close eye on the Indian Inflation rate and currency rate. The long-term target remains for a trend to between 50,000 and 73,000 by 2020.

Investing in India - ETF's

There are several liquid India ETF's available including iShares S&P India Index Fund (XID), PowerShares India Portfolio ETF (PIN) and iShares S&P Nifty 50 Index (INDY) as a starting point for your own research

Investing for Profit in the Russian Mafia States Stock Market

Wikileaks released U.S. Embassy cables that contained accusations of Russia being a defacto Mafia State that has ceased to be a democracy and is run by the secret services on behalf of an Oligarchy. Much of which comes as nothing of a surprise to either the Russian people, business men or foreign investors who know that whilst doing business with Russia can prove highly profitable, however investors and business people have to be nimble footed by being prepared to pull their funds out at short notice, which mean investors need to be invested in highly liquid funds that aim to track or better the general Russian stock indices such as the RTS stock market index rather than in illiquid individual stocks.

The wikileaks US cables had already revealed that Russian President Dmitry Medvedev “plays Robin” to Prime Minister Vladimir Putin’s “Batman”. The embassy documents also called Medvedev “pale and hesitant” in comparison to the “alpha-dog” Putin.

The Russian Mafia State in Action in London

Britain got a taste of the Russian Mafia state in action in October 2006, when the Russian state perpetuated what amounted to a nuclear terrorist dirty bomb attack on London that spread the highly radioactive polonium-210 across central London so as to kill a former KGB agent turned critic of the regime, Alexander Litvinenko, unfortunately for the Russian regime, Litvinenko managed to cling on to life long enough to point the finger at Putin's Kremlin in a statement delivered in hospital two days before he died.

"I would like to thank many people. My doctors, nurses and hospital staff who are doing all they can for me, the British police who are pursuing my case with vigour and professionalism and are watching over me and my family.

I would like to thank the British government for taking me under their care. I am honoured to be a British citizen.

I would like to thank the British public for their messages of support and for the interest they have shown in my plight.

I thank my wife Marina, who has stood by me. My love for her and our son knows no bounds.

But as I lie here I can distinctly hear the beating of wings of the angel of death.

I may be able to give him the slip but I have to say my legs do not run as fast as I would like.

I think, therefore, that this may be the time to say one or two things to the person responsible for my present condition.

You may succeed in silencing me but that silence comes at a price. You have shown yourself to be as barbaric and ruthless as your most hostile critics have claimed.

You have shown yourself to have no respect for life, liberty or any civilised value.

You have shown yourself to be unworthy of your office, to be unworthy of the trust of civilised men and women.

You may succeed in silencing one man but the howl of protest from around the world will reverberate, Mr Putin, in your ears for the rest of your life.

May God forgive you for what you have done, not only to me but to beloved Russia and its people. "

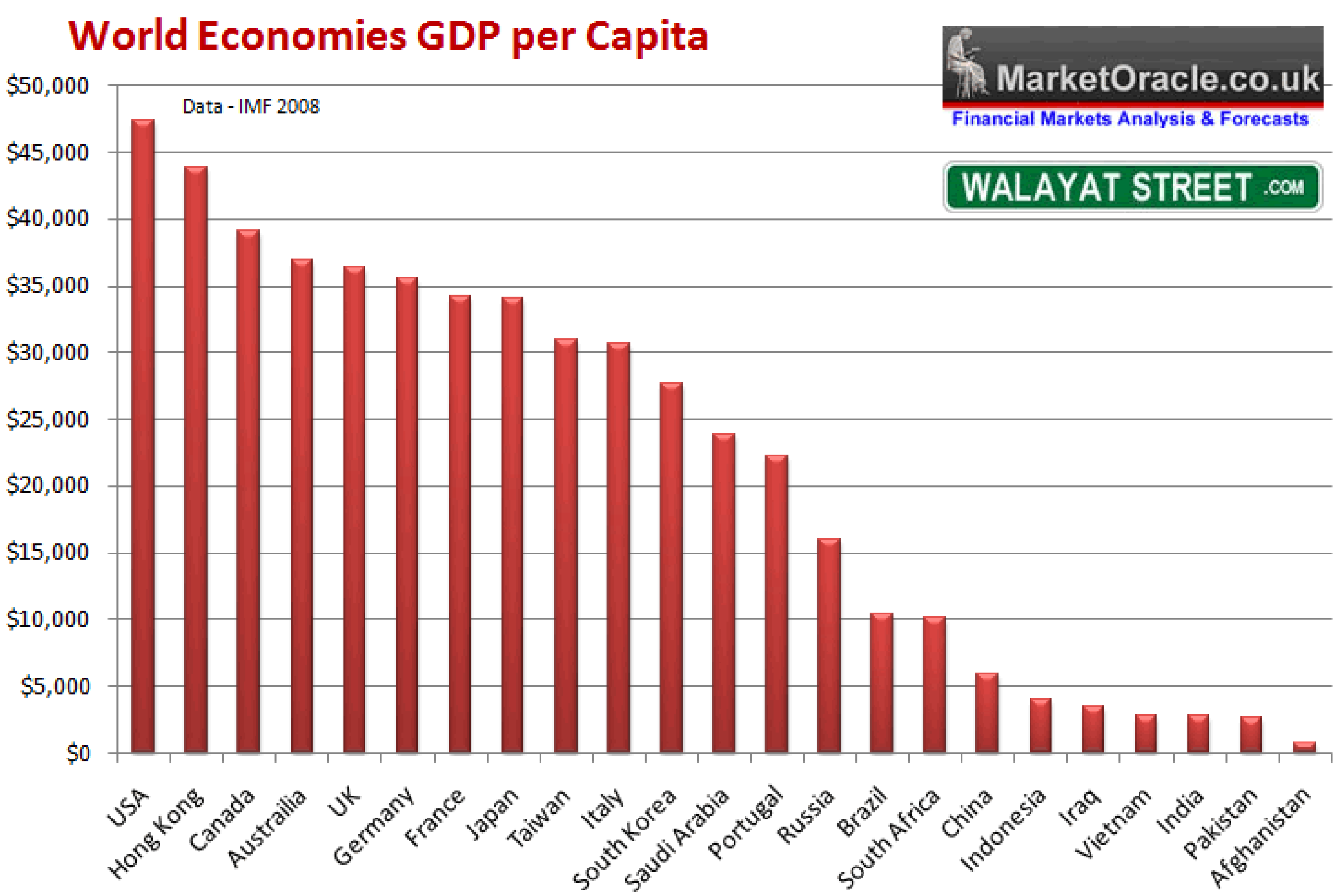
Alexander Litvinenko 21 November 2006

Litvinenko had written two books in the UK criticising the regime in Russian Regime - books, Blowing up Russia: Terror from Within and Lubyanka Criminal Group, where he accused Russian secret services of staging the Russian apartment bombings and other terrorism acts in an effort to bring Vladimir Putin to power. He also accused Putin of ordering the murder of Russian journalist Anna Politkovskaya.

Russia's Economic Growth Capped by Shrinking Population

Russia has everything going for it in terms of resources and an educated worker pool, but unfortunately due to being a perpetual totalitarian mafia state, the country is literally dieing where it's population has shrunk by 10% over the past 20 years to 142 million and continues to target a reduction of a further 15 million over the next 20 years to just 127million. Therefore Russia's huge economic potential is being diminished by the impact if a falling population, all without the consequences of a demographic time bomb that Japan is experiencing as Russia is losing its brightest and best to the west as they seek freedom and safety over the risks of having to work within a defacto mafia state.

On the bright side for investors is that Russia at approx $16,000 per capita is starting from a low base, therefore in per capita percentage terms Russia can continue to grow far more strongly than the west, but in relative terms Russia will continue to shrink in terms of the overall share of global GDP as countries such as China, India and even Brazil literally roar ahead, already there is speculation that Russia should be dropped from BRIC status with Indonesia taking its place.



However all is not lost for Russia, for if it ever managed to get a grip on rampant corruption and diminish the role of the mafia that controls the government, which eventually means ejecting Czar Putin, his sidekick Medvedev and the Oligarchs, then Russia can achieve the same level of growth as China, for the citizens of China themselves also do not live in a democratic free state, it is just that the criminals in charge of China are marginally less corrupt and more competent than those in charge of Russia. Also a day of reckoning beckons for China, for as soon as China hits a growth plateau which it surely will, then there will be major political upheaval in China.

Whilst the focus at the present time is on the Russian mafia state, however it has to be recognised that there exist to varying extent a number of mafia states around the world such as one of the European Unions biggest member states, Italy, where there is a great deal of overlap between where the state ends and the Mafia begins that acts as a noose around the Italian economy by preventing major regions in especially the south of Italy from developing and thus remaining poor regardless of how many billions the European Union plows into these areas which in significant part end up in the back pockets of Mafia families.

Climate Change Trigger for the Russian Century

As the world succumbs to the consequences of climate change over the coming decades, amidst all the losers there will be a dozen or so of climate change winners, one of which could be Russia as its climate improves which enables vast tracts of the Siberian landscape to be developed and the arctic ocean resources to be pillaged, then the potential for Russia is huge. So whilst reams and reams of text today is written by commentators looking in the rear view mirror at the so called Chinese Century, the climate change facts are that the Chinese century may come to an abrupt end long before the half way mark is reached. Yes, China is on a roll which looks set to continue for a decade or two, but then what ? Climate change suggests desertification.

Russia has come a long way during the past 10 years which followed 10 years of chaos following the collapse of the Soviet Union. I can imagine 20 to 30 years from now, talk will started to switch towards calls of an emerging Russian Century, as the destination for worlds brightest and best going to populate the new Russian cities springing up, boosting the Russian economy exponentially. Off course from here to there lies a number of developments along a bumpy road towards the New Russia. If history is any guide than the Russian Century can be achieved within 30 years given China's rise from nothing to being the worlds factory.

Additionally as a big energy exporter Russia is one of the few western countries to benefit from the soaring oil price generating huge surpluses for the Russian government to embark on programme's for the upgrading of the countries ageing soviet era infrastructure on a par with what we are witnessing in China (in relative population terms).

Yes, there are risks, especially as a Mafia run government can be unpredictable hence much market volatility, but the fundamentals are all there to support the rise of a New Russia, with the potential for putting the country into the global number one spot.

Why the Russian Mafia Stock market is Great for Investors

The markets are manipulated, this is nothing new and something that has been apparent to me from very early in my trading career, in fact the day after the 1987 crash (19 Oct 2007 - How a Newbie Beat the Great Crash!). The only way your going to win investing is by being on the same side of the trends as the market manipulators, to do this one needs to tune out the noise and focus on the only thing that matters, the only thing that reveals what the market manipulators are upto and that is market price! Market manipulations manifest themselves in two ways 1. Is accumulating price trends and 2. is in distribution price extremes.

Price trends are where the accumulation takes place, where most investors are nearly always blind to the move because they LISTEN to the mainstream financial press that is populated by those that never put a penny of their own money on the line or feature commentary from guests that are nothing more than sales men pushing a product of some sort.

Price Extremes are when it is time for the manipulators to start offloading holdings onto the suckers who pile into the markets just before the trends are about to end as the mainstream press by now has become euphoric on a market that it had been skeptical on for many years when prices were far lower. Such as today's stocks market commentary degenerating into clueless Hindenberg Crash Omens or Euro collapse, or 1930's changing year charts, or the Head and Shoulders pattern with a mutating right shoulder.

So the fact that the Russian stock market is manipulated is nothing out of the ordinary as ALL markets are manipulated. The below graph (from an December 2010 article) illustrates that the Russian stock market is both far more volatile and at the same time far easier to invest in and trade than many other markets as it exhibits clear trend of accumulation into the May 2008 peak, followed by the severe downtrend sparked by the Russia / Georgia war, that started heating up just as the stock market peaked.

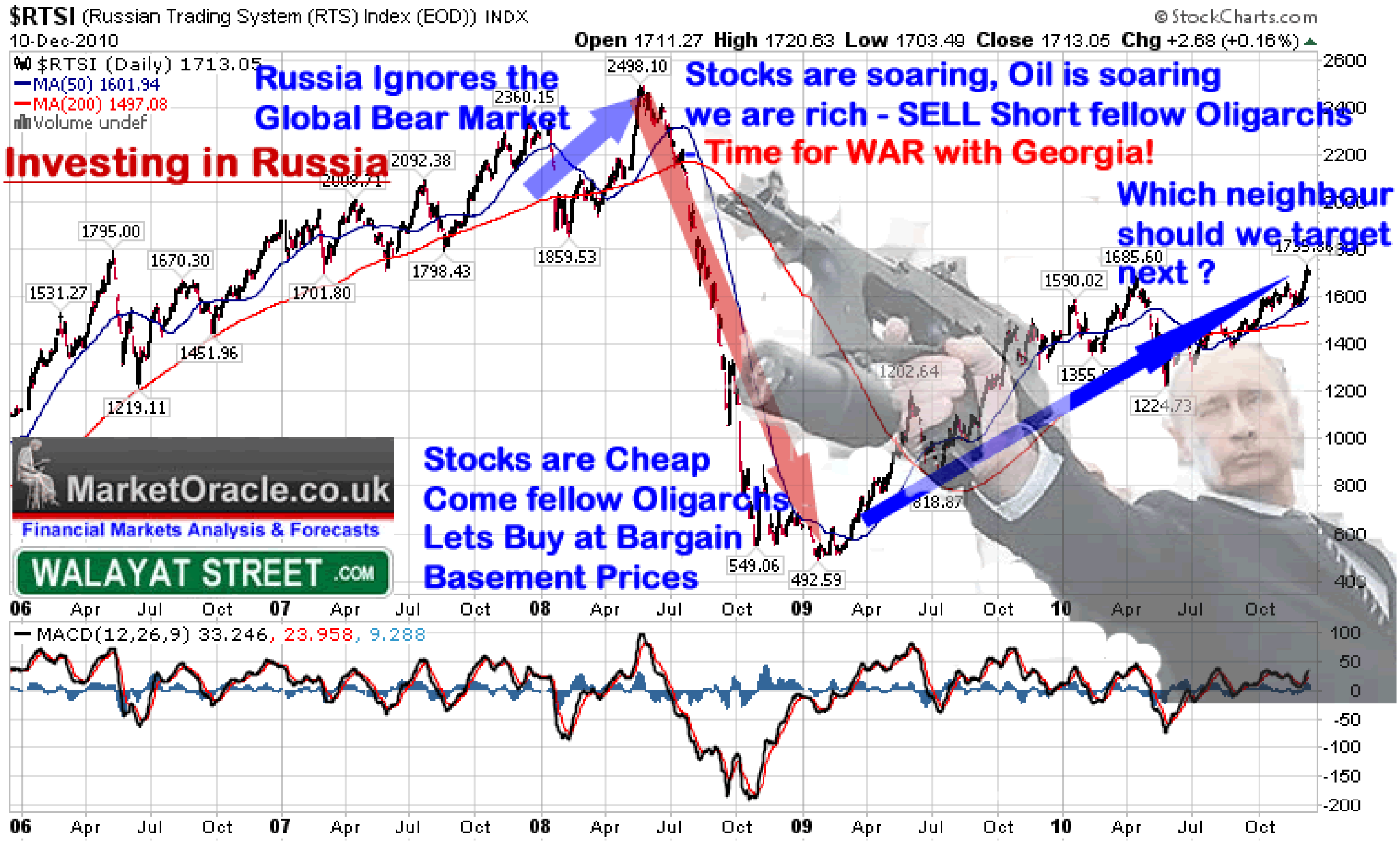


Chart courtesy of StockCharts.com

In terms of where the Russian market stands against other markets, clearly Russian stocks trade as many emerging markets trade as though they are leveraged to global stock trends. Therefore bullish trends are more pronounced and bearish trends more severe which recently has been coupled with a stable to strong currency, therefore foreign investors are also enjoying currency appreciation. In fact the more stable / strong the currency the more likely foreign investors are to plow funds into Russia.

RTSI Technical Picture

The below graph clearly illustrates a stocks index that is on track to break to a new all time high this year, which the trend trajectory suggests could take place during September 2011.

Gaining Exposure / Trading Russian Stock Market

There are a string of Russian funds and ETF's out here. My personal long-time favourite vehicle for investing / trading exposure to Russia is via the JP Morgan Russian Investment Trust (JRS) which behaves as though it is leveraged to the already leveraged behaviour of the Russian Stock market index (RTSI) i.e. the gains are greater than the stock indices whilst the risks on the downside are also similarly greater.

Conclusion - Whilst investing in Russia is clearly high risk for the potential higher reward. However over the long-run even complete wipeouts on the scale of the 90%+ losses that the banking sector has suffered, can and has resolved in virtually recovering the whole of the decline within 2 years as evidence of the underlying long-run bullish fundamentals at work that will eventual make the price actions such as above invisible in terms of magnitude over the long-run.

I see no reason why Russian stock market should not continue to outperform western markets and major emerging markets such as China. Therefore Russia remains a great market for accumulating into especially whenever its Mafia Government embarks upon market crushing (temporarily) military actions, and as with all volatile emerging markets, investors need to ensure that trailing stops are used to protect gains set at levels where the indices or funds such as JRS should not trade for the trend to remain in force, paying particular attention to JRS's stomach churning cliff dive from 840 to 150 as Russian tanks rolled over Georgia.

About the Author

Born in 1968 in the city of Rotherham, UK. Nadeem Walayat became one of the original computer geek's of the late 1970's before the term was applied to computer enthusiasts, owning his first computer a ZX80 in 1980 and soon thereafter set up his first software company in 1983 at the age of 15, writing machine code utilities for the Dragon 32 computer under the company name of Pegasus Software Services, which he later changed to Walayat Software and Network Systems (Walsoft).

Nadeem went on to discover the financial markets during 1985 and began trading the stock market in 1986, having discovered the means to trade commodity futures and more importantly stock indices such as the Dow Jones via spread bet trading in late 1986 thus triggering a 25 year trading career which has seen many highs and lows including having beaten the 1987 Stock Market Crash.

Apart from being an active trader, Nadeem continued his professional development and worked as a corporate accountant for 15 years until 2008, as well as remaining an active programmer for more than 30 years, hopping from programming language to programming language as information technologies have evolved.

By 2005, Nadeem's 20 year trading experience and 30 year programming experience afforded him the opportunity to develop the Market Oracle website with the primary objective of freely sharing his analysis, trading ideas and methodologies, which has gone on to become one Britain's most popular totally Free quality resource for economic & financial markets analysis and debate on the internet that continues to constantly evolve towards becoming one of the worlds key quality free financial market analysis hubs.

He currently resides in Sheffield, England with his wife, three children and father, and remains fully focused on trading and sharing of his analysis as a firmly private person who shuns the media spot light. His most recent analysis can be viewed at walayatstreet.com

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