Introducing The Weekly Stock Market Power Gauge

BEAT THE MARKET

WIN WITH PROVEN STOCK SELECTION AND MARKET TIMING TOOLS

GERALD APPEL

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Introduction

I am going to begin this book with a promise.

I believe that most readers of this book will be able to complete it within two to three weeks. This work has been purposely left short of philosophy, fluff, and filler. Its content is dense with instruction, theoretical and actual performance results, tactics, and strategies that you can employ immediately.

If you do your part—that is, to complete the reading and to work through the examples within—you will emerge from the process with all the information you should need to become a savvy and highly successful investor for years to come.

You will learn to recognize when stocks should be bought, when they should be held, and when they should be sold.

The Weekly Market Power Gauge

You will learn readily followed, easy-to-understand, and efficient stock market indicators associated with general levels of interest rates that will help you identify those periods when stocks are very likely to advance in price, when they are only just likely to advance in price, when you might just as well stay home, and when staying home with your capital is likely to be an excellent idea.

You will also learn an indicator that is designed to identify, by just one weekly indicator of stock market performance, the time when prices are likely to continue to rise for weeks—often even for months—with a high probability of accuracy. The best gains in the stock market occur when this indicator is in effect. At other times, gains tend to be more limited.

The combination of these indicators may be taken to reflect the Weekly Market Power Gauge. When the gauge is indicating unanimous strength in the indicators you follow, the odds very heavily favor being in stocks. Low readings in the gauge suggest caution.

In other words, you will learn how and when to put the probabilities on your side—to invest when risks are the least and to recognize when risks are the greatest.

You will also learn how to build your stock portfolio—what to buy and what not to buy—and how to blend the components of your portfolio in such a way that the whole is better performing than the average of its parts, as well as how to select mutual funds and exchange traded funds that are most likely to outperform the average stock, fund, or exchange-traded fund.

I cannot promise profit on each and every trade. I can promise, however, that you will have put at your own disposal, the ability to invest objectively, to invest with a plan and strategy, and to invest, over the long term, very successfully.

Demystifying the Process of Investing…

If you are reading this book, there is a good chance that you at least occasionally tune in to those television programs on CNBC, Bloomberg, or elsewhere that feature up-to-the-minute stock market reports, intermixed with streams of market experts—with sometimes up to four or even six heads at a time, and usually with a bullish bias—who agree or disagree regarding prospects for the stock market, near and long term.

Given the constraints of television time, experts are provided with one or perhaps a few minutes to succinctly stake out their positions. For the most part, Wall Street pundits tend to be optimistic—particularly corporate representatives, who, naturally, have their own stakes in expressing optimism regarding their own industries or companies, or executives of mutual funds, who are most unlikely to advise investors to bail out of the stock market.

Still, you might wonder—with all those computers available, with all those financial and technical wizards in-house, and with all that research data at hand—why so few market forecasts are in agreement, and to the extent that they are, it is usually to the effect that what has been happening in the marketplace is what will continue to happen.

Perhaps there are too many experts, too much information, too many indicators—much of which is contradictory—and too much implied need to predict what may happen in the future rather than to simply respond to what is taking place in the present. You will be learning just a few indicators: tools and techniques by which you can track the stock market—not by forecasting weeks, months, or years ahead, but simply by being able to recognize when it is time to hop aboard the train, as well as recognizing when it is time to exit the party.

The tools that you will learn are the basic tools that I employ to manage my own and my clients' money.

Money is serious business. Other people's money is even more serious. If you know your clients personally, the way my company tries to know its clients, you know the importance of accumulating for the time when you can no longer work, you understand the seriousness of late-life illness when cash on hand is insufficient for medical expenses, and you learn the impact of inflation on lifetime nest eggs.

I, my son, and our staff take investing very seriously. I have personally spent a good part of my lifetime studying, researching, and testing methods by which investment results may be improved. You will be learning strategies by which large amounts of actual clients' money—and my own—are being invested.

This is not a large book. I have written it to be a serious book.

I promised a brief but useful work.

Let's cut to the chase.

Gerald Appel

Prologue

A Signal for a New Bull Market Is Given…

The time is September 6, 2002. The stock market is in the final throes of one of the most vicious bear markets in history—a bear market that has already taken the Standard & Poor's Index down by 47% from its early 2000 peak levels, and which has lopped 77% from the Nasdaq Composite Index.

Pessimism is rampant. Investors have seen serious damage done to their personal savings, to their retirement plans, and to their asset base in general. Many mutual funds have shut down or merged. A war with Iraq looms on the horizon, adding to the general uncertainty.

However, two indicators—indicators that measure the value of stocks compared to the values of alternative investments—flash the all-clear signals that the time has come to enter into the stock market with full force; signals that stocks are once again bargains; signals to buy and to buy now!

And, as matters turned out, these proved to be very timely signals, indeed. The buy signals that these two indicators produced on September 6, 2002, were followed by a market advance that did not come to an end until October 9, 2007. At that time, the Standard & Poor's 500 Index had risen from 893.92 to 1565.15—a gain of 671 points or 75.1%.

However, by July 13, 2007, three months before the final peak, trouble had begun to appear on Wall Street. A rash of defaults in the mortgage industry had spread to financial institutions across the globe as it became apparent that lenders had extended far too much credit to far too many borrowers who did not have the capacity to repay. As the financial community reeled, losses mounting as a result of a rash of defaults—with major institutions, such as Citicorp, ultimately losing half their value—the stock market turned down, losing 9.4% in just four weeks.

What were the indicators that had placed investors into the stock market in 2002 suggesting at this juncture? They steadfastly retained their bullish status, maintaining their favorable outlook throughout the July–August 2007 decline. This optimism was rewarded as the Standard & Poor's 500 Index recovered to new highs on October 9, less than two months after the lows of August.

The past history of these "value indicators" had been marked by stock market declines of up to 17%, even while their status remained favorable. These measures of stock market value were not designed for in-and-out trading but rather to alert investors as to when stocks represented or no longer represented favorable value. History has shown that when stocks are still "inexpensive," market declines do not last for very long.

Following the October recovery, which brought many popular market indices to new all-time highs, pessimism quickly returned, with subsequent market declines reaching the area of 18% in January 2008—still barely within but threatening to violate past boundaries of risk.

However, stocks DID recover, after one final dip in March, reclaiming by mid-May most of the losses taken at the start of the year.

As matters had turned out, the stock market had found support within the normal range of market fluctuation implied by the indicator set that had called, with such accuracy, the end of the bear market, and had kept its followers in stocks all through the 2002–2008 period. These indicators had been bent by the "sub-prime credit crisis." However, they did not break.

The two indicators that measure stock market value have been combined into one key indicator: the "Twin Bond–Stock Valuation Model," which has been generating accurate signals since 1981. You will learn in this book all you need to know to assess the stock market by way of this timing model so that you, too, can identify key market turning points of the sort that took place during September 2002.

Please join me as we explore the procedures involved.

Gerald Appel

July 2008

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