Amazing Investment Opportunities for the Upcoming Weeks - and for 2011

This free report is intended to be an ongoing educational tool for the thousands of owners of the Striker Fx book.

Although it’s not the purpose of these reports to make predictions or recommendations pertaining to stocks, as a Forex trader I do feel that it’s important to be aware of what the major stock market averages are doing.

As Election Day draws nearer, we thought it might be interesting to look back at previous mid-term elections to see if the current strength in the U.S. stock market is ‘typical’ leading up to the election.

Here’s a current chart of the S&P 500 Index:

Just after Barack Obama took office, stocks fell sharply to a low during the first week of March 2009. But by the end of 2009, the S&P 500 Index finished with a gain for the year of 23.45%. In the last several months, as the campaigns have picked up more and more steam, stocks have rallied quite strongly from a low that was made just before Labor Day.

Next, let’s go back 4 years to the previous mid-term election which came in 2006 during George W. Bush’s second term in office:
In the chart above, leading into the mid-term elections of 2006, stocks were very strong. The question is, “Are stocks typically this strong leading into a mid-term election?”

Actually, they are, especially during the last 3 to 6 weeks.
Leading up to the 2002 election, stocks suffered a rather severe decline during a 7-week period that ended on October 9th. But during the final 3 weeks before the election, most of the decline had been retraced.

Four years earlier, leading up to the 1998 election, a similar event occurred.

After peaking in mid-July, stocks declined to a low on October 8th. But again, during the next 3 weeks, a strong rally pushed prices higher.
In 1994, during Bill Clinton’s first term in office, stocks declined from the end of August through the first week in October. But during the last 3 weeks leading to Election Day, stock prices worked their way higher.

In 1990, stocks declined from mid-July through the 2\textsuperscript{nd} week of October. After that, a mild Election Day rally brought prices higher.
If we go back to 1986, the pattern is basically the same.

But in 1982, the only similarity in the pattern is that stocks were strong from early August to Election Day.
Is There a Mid-Term Election Pattern in Stocks?

Perhaps there is. If you examine each of the charts from 1982 through 2006, the most consistent pattern has been for stocks to move higher into the election.

To see this a little better, the chart below was constructed by blending together the data for each of those years:

In looking at the chart above, we can conclude that during the period of 1982 through 2006, the stock market has been quite strong the last 3 to 6 weeks leading up to the election.

Just a fluke? – Maybe.

What if we go back further? What about the Mid-Term Election Years from 1934 through 1978? If we blend that data together, what do we get?
Again, this is not a prediction. But as a Forex trader, I have to be aware that the stock market has a tendency to be somewhat strong leading up to the election. But keep in mind that this is not a certainty. It doesn't happen every year and if it doesn't happen this year, then that's fine. It's simply an observation of what could happen. The importance of this observation is that when stocks are strong, the U.S. Dollar has a tendency to be weak and a weak Dollar can lead to strength in the European currencies.

So much for the election. But what about the pattern after the mid-term election? Here's a table you may have seen before. I've put this table into various books and articles in the past.
In the table above, the 1st and 4th years are normal 12-month years. The data for the 2nd year covers 9 months and for the 3rd year the data covers 15 months. By altering the time period of the 2nd and 3rd years of the 4-year Presidential term, it allows us to get the full effect that mid-term elections have on the economy and the world of business.

As you look at the table above, you’ll notice that during the 15-month period that I’m referring to as the ‘3rd year’, the S&P 500 Index has never been negative. In our opinion, the data in this table from 19 Presidential terms is enough to convince us that politicians, regardless of their party affiliation, are very likely to react in exactly the same manner year in and year out.

It’s not our purpose in this report to predict that the period from October 1st 2010 through December 31st 2011 will be a blockbuster for the U.S. stock market, but we do happen to believe that it will at least be ‘average’. As we can see in the table above, an average for the 15-month period will be an increase in the S&P 500 Index of around 25%.
To get a better feel for what a 25% increase in the S&P 500 Index would look like, take a look at the chart below:

In this chart, the light grey line represents the ‘average’ performance of the S&P 500 Index for each of the 19 Presidential terms from 1933 through 2008. The black line represents the S&P 500 Index starting January 1st 2009. Based on Friday’s closing price of 1146.24, if the next 15 months is ‘average’, the value for this Index could be just under 1450.

What does all of this have to do with world currencies? The answer to this question is in the consistent relationship between the US Dollar and the US stock market.
U.S. Dollar

Although readers of previous reports are already familiar with many of the charts that we use, I like to follow the same format so that new book buyers are able to get a better picture of how these markets are trading. Below is a long-term chart of the Dollar Index which is basically a comparison of the value of the U.S. Dollar relative to a basket of six world currencies.

The Dollar was on a strong roll from December 2009 until the first week in June. In a previous report I made the comment that the “previous high of around 89.00 would be where I would expect those traders and investors that had made money on this move to begin taking some of their profits”. As we can see in the chart above, the current pullback has retraced just over 50% of that move from the December 2009 lows.

When I look at the Dollar Index, I like to plot it in a chart along with the Dow Jones Industrial Average. Because the Dollar has a tendency to trade opposite to stocks, I like to turn the chart upside down and plot the ‘inverse’ of the Dollar.
In this chart, the inverse of the Dollar Index is plotted as a light grey line. This chart makes it a little easier to see that the recent weakness in the Dollar was accompanied by a stronger U.S. stock market. If the next 15 months is ‘average’ for stocks, the U.S. Dollar could collapse and challenge the lows made in March and April of 2008.

**Japanese Yen**

Another Index that I like to look at each week is one that I create myself of the Japanese Yen vs. a basket of five world currencies. This Index compares the value of the Yen vs. an average of the US Dollar, the Euro Currency, the British Pound, the Swiss Franc and the Australian Dollar.
Using a starting value of zero in January 2003, we can see that the overall value of the Japanese Yen declined until the summer of 2007. For the next 12 months it traded somewhat higher. As these charts illustrate, for more than 5 years, the Dollar and the Japanese Yen were the two most ‘unfavored’ of the world currencies.

But in August 2008, when it became evident how severe the banking crisis was, the trend suddenly changed and the Yen joined the U.S. Dollar and quickly became one of the most favored of the world currencies.

If you’re new to the Forex markets and you happen to hear that the Japanese Yen is trading at “historic highs”, you need to put comments like that into the proper context. When a statement like this is made, it’s usually made in regards to the Japanese Yen compared to the U.S. Dollar. Here’s a long term chart:
As we can see in the chart above, in terms of U.S. Dollars, the Japanese Yen is at historic highs. However, if you look back at the previous chart of the Japanese Yen vs. a basket of five world currencies, there's plenty of room for the Yen to trade higher.

**Trading the Currency Trends**

When it comes to trading the currency markets, most of the day-to-day activity is between the European nations vs. the U.S. Dollar or the Japanese Yen. In the last three weeks, the nations whose economies have been *perceived* to be the strongest are the Europeans. The nations that have been *perceived* to be the weakest are the U.S. and Japan.

**EURUSD**

Below is a chart of the most popular of the Forex markets, the Euro Currency vs. the U.S. Dollar (or EURUSD). The Euro is the currency used by all of the nations that are currently members of what has become known as the *Eurozone*. As we can see in the chart below, the value of the Euro Currency relative to the U.S. Dollar has increased from 0.90 (or 90% of the value of a U.S. Dollar) to a high during 2008 of just over 1.60.
Currently, most Forex brokerage firms will allow you to trade a standard (or full) contract of the EURUSD for as little as $3,000 margin (with a current price of 1.3700, the margin should be $2,740). We don’t recommend that you try it, but you can actually trade full contracts with very little money.

If the word ‘margin’ is new to you, don’t worry about it. It’s basically a down payment that you make which allows you to do a trade.

In the chart above, I’ve identified three recent long term moves in the EURUSD. The first is a decline from around 1.60 at point ‘A’ to a low at point ‘B’ near 1.25. The change in value of this contract was 0.35 which equates to $35,000 for a full contract. I don’t like trading full contracts in a small trading account, but technically, a very small account could have made a large profit from the move down from point ‘A’ to point ‘B’.

Similarly, the move up from point ‘B’ to point ‘C’ was 0.25 (or $25,000), but look at the whipsaws you’d have had to endure along the way. The best way to trade Forex markets long-term is not with full contracts, but with mini (or even micro) contracts. A mini contract is 1/10th the size of a full contract and a micro is 1/100th. Therefore, in a mini contract with a margin of $160, the move down from point ‘A’ to point ‘B’ would have represented a change in the value of the EURUSD of 0.35 of $3,500 and the move from point ‘B’ up to point ‘C’ would have been $2,500 for a very small amount of margin. In a micro contract and a margin of $16, the changes in the value of the contract would have been $350 and $250 respectively.

Now that the mid-term elections are upon us, if the performance of the U.S. stock market for the 15-month period from October 1st 2010 through December 31st 2011 is ‘average’ and stocks increase in value between 20% and 25%,
there's a very good chance that the US Dollar will once again resume its decline vs. the world’s currencies. To illustrate the affect that a declining Dollar can have on the Forex markets, let's take a look at a chart of the Euro Currency vs. the US Dollar:

![Euro Currency vs. US Dollar Index](chart.png)

During the first term of President George W. Bush, the mid-term elections were held in November 2002. The chart above covers the performance of the EURUSD during the 15-month period from October 1\textsuperscript{st} 2002 through December 31\textsuperscript{st} 2003. Because of the declining Dollar, a standard Forex contract in the EURUSD increased in value by $28,000.

Four years later, during President Bush’s second term in office, a standard Forex contract increased in value by more than $21,000.
It’s not the purpose of this report to make any definite predictions about the fate of the U.S. stock market or the US Dollar, but success comes to traders that are well informed. Although the table of the S&P 500 Index illustrated earlier in this report shows that the S&P 500 Index has never declined during the 15-month period that we’re referring to as the ‘3rd year’, doesn’t mean that it never will.

If you’re a stock investor, the best way to use this data is to have a ‘bullish’ bias during the 15-month period that begins now. It doesn’t mean that you should close your eyes and buy, it simply means that you should be ‘active’ and that you should look for opportunities to own stock.

If you’re a trader in the Forex currency markets, as we are, you should look for opportunities to benefit from a falling Dollar. One of our favorite Forex markets is the EURUSD. Starting this month, most (if not all) of our positions in this market will be bullish. In other words, we’ll be looking for opportunities to ‘buy the dips’. 