Steve Sjuggerud's
DAILYWEALTH
PREMIUM

Why I'm NOT Buying the World's Cheapest Market

By Dr. Steve Sjuggerud
Thursday, November 20, 2014

Russia is the world's cheapest stock market – by far.

It's significantly cheaper than Lebanon's stock market. And dramatically cheaper than Venezuela's. It is CHEAP!

It is a "contrarian's dream" as well, as Kim Iskyan – the best Russia analyst I know – says.

I am a sucker for a cheap, contrarian play. But I am not buying Russia...

Exactly one month ago, I explained the main reason to my *True Wealth Systems* subscribers.

It was the right call... U.S. stocks have soared more than 7% in the past month... And Russian stocks (as measured by RSX, the main Russia exchange-traded fund, or ETF) are down over 2%.

Russian stocks have lost half their value over the last three-and-a-half years. You'd think they'd find a bottom here somewhere.

But here's why I'm not buying... Here's what I explained to my *True Wealth Systems* subscribers:

When the foreigners are buying heavily, the foreigners are usually wrong.

And that's what's happening today...

You see, despite Russian stocks trading near five-year lows, U.S. investors are piling in...

For proof, take a look at the chart below. It shows the main Russian-stock ETF (RSX) versus its shares outstanding.

Remember, exchange-traded funds like RSX create and liquidate shares based on

Steve's Premium Notes

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One way to get value outside of the U.S...

"As stocks here in the U.S. get more expensive, folks are more likely to look for value in emerging markets," Amber Lee Mason writes in her *DailyWealth Trader* newsletter.

Like us, Amber looks to ETF share fluctuations to gauge investor sentiment. And investor pessimism for emerging markets may have bottomed earlier this year.

Amber explains this, using the iShares MSCI Emerging Markets Index Fund (EEM) as her benchmark...

Back in March, EEM's share count hit its lowest level since 2008... But it has started to climb again. The number of shares outstanding is now 18% above its low.

While investor interest in emerging markets is just starting to pick up, there's still great value to take advantage of.

Amber explains...

The average price-to-earnings (P/E) ratio on the stocks in EEM is 12.3... That's 32% cheaper than the average stock in the benchmark S&P 500 index (which has a P/E ratio of 18.1).

Amber's convinced that EEM will offer up some great profits as emerging markets gain steam. But she believes you can do even better trading with leverage.

The easiest way to do so is through the ProShares Ultra MSCI Emerging Markets Fund (EET).

It has exposure to all the same stocks as EEM... But it rises (and falls) twice as demand. The total shares outstanding fluctuate depending on whether more investors are buying or selling.

And while RSX's stock price is bumping along lows, RSX's shares outstanding are near all-time highs:

This tells us that U.S. investors want to own Russia right now...

You can interpret this in a couple of ways...

Some might think that all of this U.S. buying interest in Russia will have to turn into higher share prices in Russian stocks soon.

But we don't think that's right...

In our decades of experience, we've learned that foreigners are usually wrong.

When U.S. investors are excited about China and they're loading up on Hong Kong stocks, for example, it usually means the Hong Kong market is near a top.

It works the other way as well – when Japanese investors are piling into U.S. stocks, it usually means that the U.S. stock market is near a peak.

Normally, you want to avoid a market where the locals are apathetic but the foreigners are piling in.

It looks like that's what's happening in Russia right now.

U.S. investors are making large purchases in Russia. They think they're buying an incredible value that is ready to soar. But Russian stocks continue to fall to new lows.

To me, this is a bad sign.

I could be wrong, of course. Russia could start soaring right now. But I've learned that, typically, bull markets usually don't start without locals buying.

I was surprised to learn that Kim Iskyan – who spent nine years in Russia as a stock analyst before starting the *Global Contrarian* letter – agrees with me.

He recently wrote that:

> At the surface, Russia's stock market is a contrarian's dream. Between the conflict in Ukraine, sanctions on the country, a struggling economy and plummeting currency, and bad boy President Vladimir Putin, headlines about the country are relentlessly negative.

"So is Russia a screaming buy?" Kim asks in his newsletter. He answers...

"Russian stocks are cheap... but they'll stay that way for a long time."

much. It's a great way to take full advantage of a boom.

So if you're looking for value outside the U.S., consider Amber's advice on emerging markets. Check out shares of EET. Amber suggests using a hard stop of $69 on this investment.

– Steve Sjuggerud with Brett Eversole

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By Dr. Steve Sjuggerud
Monday, November 24, 2014

The foreigners are buying... But the locals and the experts (like Kim) are not.

Russia is the cheapest market in the world... And I'm not buying.

Buy Russia at your own risk...

Good investing,

Steve

P.S. If you're looking for high-upside opportunities you won't find ANYWHERE else, I urge you to check out Kim's new *Global Contrarian* newsletter. Kim's letter isn't for everyone... In fact, most investors probably won't be interested. But Kim's high-level, "boots on the ground" research is considered required reading around our office. You can learn all about Kim and *Global Contrarian* right here.

Further Reading:

Steve likes another emerging market much more than Russia right now. In fact, he says it's the best market for 100% gains right now.

Russia isn't the only investment Steve recommends avoiding right now. "We can't know the future," he writes. "But if you're thinking about investing in an income investment that is a bit riskier but pays a higher yield, I would think again." Find out why here.

"Chinese stocks have the potential to deliver triple-digit gains within 24 months," I said on CNBC earlier this month.

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Market Notes

UPDATE: THE MOST IMPORTANT UPTREND NOBODY IS TALKING ABOUT

U.S. financials continue to surge... and that's good for America.

On October 1, Dr. David "Doc" Eifrig explained why the soaring share prices in U.S. financials is "the most important uptrend nobody is talking about." As Doc mentioned, the true purpose of finance is to help capital and wealth find their most efficient uses. When this industry thrives, our economy grows.

Regular *DailyWealth* readers know we monitor XLF to gauge the action in the financial sector. With large weightings in JPMorgan, Bank of America, Goldman Sachs, and Citigroup, XLF represents the backbone of the U.S. financial system. It rises and falls according to America's ability to earn money, save money, service debts, start businesses, and generally just "get along."

As you can see below, financial stocks are in a major uptrend. Shares of XLF are up nearly 60% in the past two years and just reached their highest level since the financial crisis. The bull market in American finance continues.

Financial Select SPDR Fund (XLF)