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Precious Metals, Yen, Global Equities:
The Next Inflection Point?

May 15, 2011

NIKKEI/YEN

As per previous reports, "things Japanese" are linked more than ever. The overwhelming need to print bonds will have major effects upon the stock market, Yen and, of course, long term rates {Japanese Government Bonds (JGBs)}.

These developments are among the most important in global markets; be certain of this.

Recent letters have described a higher low coming in Japan, one that would complete the move which included the earthquake-related debacle. The sharp rebound since the low has underperformed the Dow which, by contrast has been completing its uptrend.

Therefore, the **Nikkei-Dow spread (outperformance chart)** has been reflecting a downtrend pattern which, as can be seen in the **daily 1-year graph on page 2** requires a decline to complete its pattern. Thereafter, long/short strategies will again focus on the new correlation (inverse relationship).

The Yen has completed a countertrend spike up and has reversed back to the downside, preparing to break the previously forecast and broken target of 116.

May 1, 2011
"Money creation" dwarfs the effects of asset liquidation and repatriation, except that the former follows the latter, so keep the eye on the Japanese Government Bonds. In other words, the Yen's strength is, I believe, temporary with new lows beckoning.

March 6, 2011
"As far as targets go, the Yen chart below should easily see 116 by summer."

Consider the trio discussed in the 1st paragraph of this section, though no charts of the JGBs are included here.

In that context, the referenced importance of the chart below makes evident the role of "things Japanese" in appreciating how to best structure the most profitable and strategic global long/short positions, regardless the asset class.

DOW

The peaks of these most recent years have been followed by sharp reversals within a day or two, so a decline of only a few hundred points indicated that there would be another new high, however slight.

In today's case, quantitative and global equity divergences would become truly ridiculous and, at a new Dow high, this index would merely test under 13,000, which is pretty much where the recent peak already was.

Having said that, the Dow looks menacing today at 12,600, whether analyzing the technical indicators, the global cross charts (such as the one above) or, most obviously, its own chart pattern.

All taken together, the US markets can roll off a cliff whenever it feels like it, and one's strategic positioning and cash management should reflect that.

May 1, 2011
"Strategically, I have written of the wisdom in opening bearish market positions with VIX call spreads. I also wrote of the value of including long term equity index put spreads, since the latter enjoy the greatest leverage when the market is plainly trending lower.

"However, since establishing the diagonal VIX call spread, the Dow has been straight up, so bearish market positions are presently contained to our VIX position. So, for the conclusion of this section, please see the VIX analysis that follows immediately below."

VIX

May 1, 2011
Since its low in the 3rd week of March, the VIX's stochastic (bottom of following chart) has put in a *triple* divergence. It is to be taken very seriously since, as I write above, quantitative indicators are reliable at lows (in a cyclical bear trend), as opposed to peaks. And the VIX runs countertrend to the Dow, of course.

In any event, (even) spreads on the Dow have taken vicious beatings.

Meanwhile, despite the recent one-way move up, our diagonal VIX call spread has only declined from $1.45 to $1.20. VIX options are *based* on the underlying cash index, while the options are *priced* off of the futures.

April 3, 2011
"A recovery to the 20-level should occur quickly with a mere drop in the Dow to 12,100. For those using VIX options as part of their global portfolio approach for managing bearish portfolio strategies and volatility, this is worth noting!"

May 1, 2011

"It is important to note that the facts and analyses expressed in the Dow and VIX sections above suggest that a mere a decline to the 12,450 area on the Dow could provide healthy double-digit gains, even though the Dow would be higher than where it was when the VIX call spread was purchased, further notwithstanding the erosion of time! But we'll see."

Well, it only took a decline to 12,600 to get the VIX up a bit over 19. And, yes, while Dow bear strategies of all stripes have dropped in value, the VIX position mentioned above has indeed achieved (for now?) lower double-digit gains, despite the market's higher levels (than where the index was at the time of the establishment of the long VIX position).

GOLD/GDXJ (Market Vectors Junior Gold Miner's ETF)

Gold can still correct to a target area of 1400-1450, where it would hook up with its 200-day moving average. This would be consistent with the anticipated equity market thrashing.

However, gold's possible target, as well as the fact that the 200-day moving average has beautifully defined the metal's uptrend, is rather obvious to the global marketplace; so, be ready if it doesn't happen.

The excerpt below refers to the GDXJ, where 2/3 of the position was profitably liquidated for strategic purposes. Of course, the remaining third is finally under water, and a move to 38 1/2 will/would be used to exit (that is where the diagonal call spread had been entered).

When looking at this index, support at 33 is also an obvious level which may or may not be seen. Remember too that we are only a point and a half higher than this level.

May 1, 2011

"This letter is proving (in both directions) that a market call can be imperfect, but yield favourable (or unfavourable) results, according to the strategic portfolio approach assumed."

SILVER

Once again, silver's chart pattern has been far more volatile, as well as much clearer from an analytical perspective than gold's.

May 1, 2011

"Silver can always subdivide into moves that take the metal to $53. This would confound and chase away what's left of the bears, with 90% bullish opinion already among traders as a backdrop. This would especially be the case after a false alarm to the downside, which would take the form of a wave-4 decline to $45, as part of the move from the March low."

"However, while silver is ultimately going to some unknown stratosphere (concurrent with gold's explosion to $3,500), I fully expect the metal to correct to ~$36."

My respect for the possibility of a final move to $53 precluded the communication a short signal, though the section did conclude that a diagonal put spread (recommended strategy) would barely be touched by a slight and final advance.

However, the message was clear to not be long, while also suggesting that a break of $45 (see above) would nullify any previously contemplated final advance to $53.

Today, silver is staring at a possible final move to support at $30. However, the cautioning here remains the same: this is a level that everyone sees and which may therefore not be achieved.

More likely, any continued correction would be one that is more comprised of time than price. Therefore, diagonal call spreads are appropriate now.

ASSET ALLOCATION

The breakdown remains:

50% gold
25% Swiss Franc
25% US Dollar

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