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Windfall Gains in 2008:

Esoteric Alternatives for Hedge Funds & High Net Worth Individuals

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NEW YORK

The Citigroup news sparked a wild short covering rally this week for which the technical backdrop was primed, with tomorrow's rate announcement helping to ensure that traders lose their yearend short selling bravado.

The disappointment of Christmas sales will usher in a 1st quarter debacle, I believe, and there may be a surprising will to have this rally end in a manner as did the September – October rally of 1987, when the pattern was similar. Simply, smart money could get in front of the bad news and not wait for it to manifest, out of a healthy fear of everyone rushing for the exits at once. Hedge funds and family practices have greater mobility than do mutual funds.

And maybe Iranians won't be murdered until Christmas sales are a lesser concern, but maybe there are those who won't wait for that either, if they KNOW that it's going to happen.

$100 Oil isn't good for consumer spending, which has an almost immediate effect on markets, but the propaganda on Wall Street now is that the low Dollar means that people will go the US from Europe to bail out the sales numbers. You gotta love those Europeans.

The surprise ½-point rate cut that led to a minor new high in the Dow Jones would need to be surpassed by a ¾-point cut Monday, to rationalize this rally and support the GUESS that such an action will have indeed bailed out Christmas. After all, such a rally could be perception-based, based on a bit of surprising news.

Still, there are the smart guys who wonder what's left for an encore, who wonder how long a bad Dollar can save the day, before it ushers in a catastrophe as free sovereigns liberate themselves from the Dollar. The smart guys might wonder too whether the impeachment of mass murderers might not usher in the political instability necessary for sovereignties to try to wiggle free from oppression.

Yet another wild card is the factor that Alan Greenspan had more than once discussed, namely, the need to leave room to cut rates after markets get hit. Greenspan may have been a hypocritical scumbag, as I've called him in the past, but Bernanke will have been seen as an academic wimp, by the time this is over.

Wall Street will treat an academic harshly, because they're just not like that. They're looking to blame everything on him. Wall Street never assumes blame for its greed and havoc it causes. When things go bad, their touts will come front and centre, to describe what should have been done by the Fed, to deflect from their own greed and the equity price spiral that their insanity will have caused.

This week, a colleague was telling me about Wall Street's insurance products that strip savers of their annuities. It was an amazing and tragic example of yet another means by which they created a revenue-generating product that sparked consumer spending, while stripping consumers of savings. The tragic part is that it created investment banks (the modern day name for brokerage firms) that cheer for their clients to drop dead. You gotta love these guys.

2008 Is going to be a whopper!

Technical:

The weekly long-term chart immediately below illustrates a downtrend confirmed by its stochastic. Weekly stochastic are coincident and do

not offer confirming divergences, as do such daily and monthly indicators.

The moving average shows support to be in the Dow 11,200 area, while the 1-year daily chart that follows it illustrates 200-day moving average resistance achieved. Still, it can be surpassed with a move to 13,600, but it would change nothing, in the context of the discussion above.

Please scroll down.

The following chart of the Nasdaq includes Friday's activity, unlike the Dow chart, which ends with Thursday's action. The Nasdaq can get up to 2720, or so, much as the Dow's resistance lies at 13,600, but Friday's "outside day" (day's highs and lows exceed those of the previous day) is potentially ominous as, in technical theory, such a day should mark a trend reversal (particularly if closing on the lows, which it did not do).

Hitting 2700 is dangerous enough. Will they actually cut ¾ of a point?

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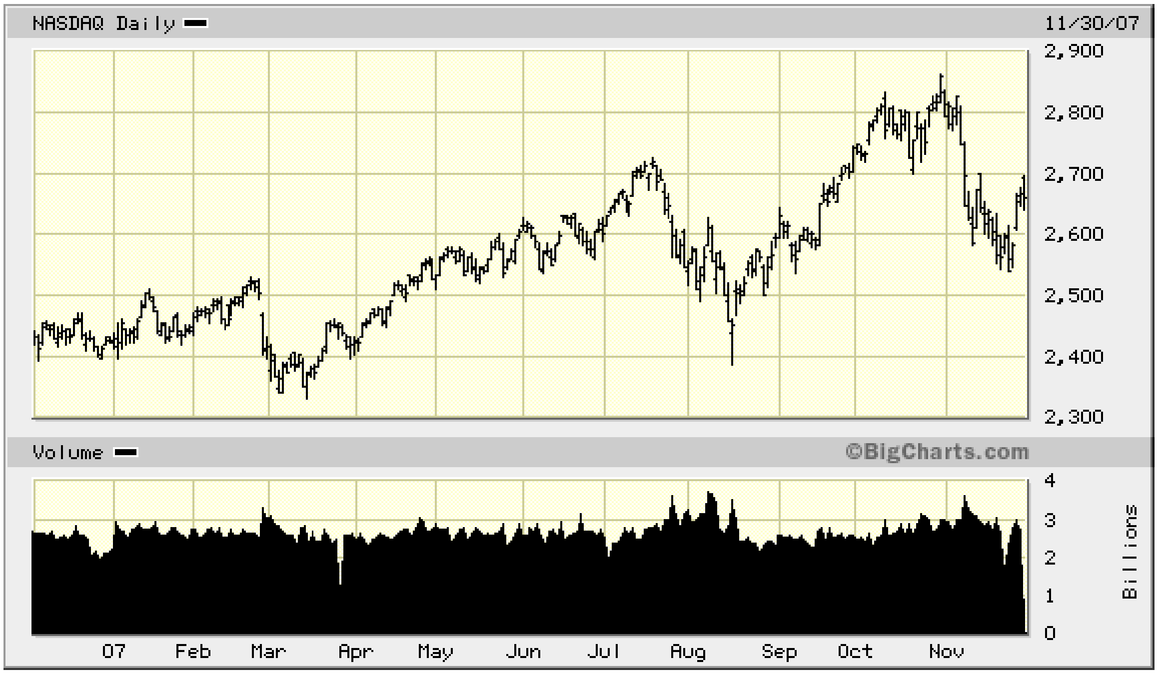


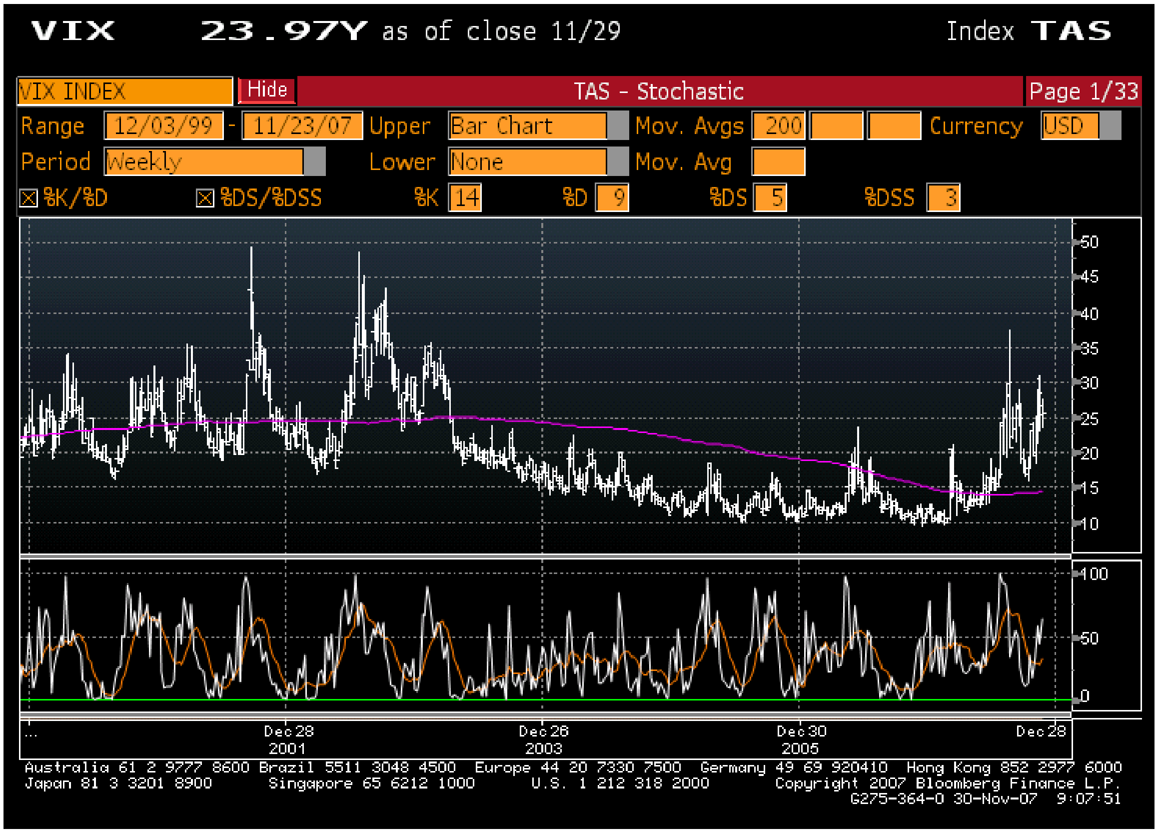
VIX:

The long-term chart below illustrates the bowling pattern that reflects a tidal shift toward increased volatility, which is not going away anytime soon.

The daily chart of the Volatility Index beneath it also reflects that upward trend, and clearly indicates how the 200-day moving average has become defining support. Not only does this tip off traders as to when the market is within a day or two of turning down, it also shows when the timing is ripe for entering into the put options, which represent our sole investment in New York.

Short selling is a major involvement and with everything else working so well longer term, across our asset allocation spectrum, who needs the grief, particularly since the Dow puts will single handedly provide the returns sought, even while only representing a tiny portion of one's wealth, with size depending on the individual.

The long-term chart of the VIX immediately below suggests that it can go a lot higher and thereby support the notion that markets may yet head a lot lower by yearend, while the one-year chart reflects support at 20, which I don't think will be attained, given my views regarding market resistance levels. Such a decline would be consistent with a triple top in the Dow and a rate cute of ¾ of a point, though that's just a scenario, of course.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Conclusion and strategy:

A move toward 13,600 would be (is) a good opportunity to short the Dow, because 14,000 is not worth waiting for, if the downside next year is 8800. The concerted effort to save another Christmas is providing a glorious opportunity to short 2008, which even the powers-that-be have surrendered to the bears, on a fundamental basis. The Dow in 2008 has an appointment with 8800, and even the first quarter may well get the job done. I've learned this over the last 25 years: When the Street realizes that something is going to happen, they just make it happen and don't wait for others to sell ahead of them. Remember, the Fed has already forecast a weaker 2008. HEAR THE BELL!!! It's ringing so loud, it's drowning out the fat lady.

Asset Allocation:

- **45% gold**
- **5% silver**
- **25% Yen**
- **25% Swiss Franc**

From the September report: "This is a wonderful time to own the Yen, gold...and silver!"

Good fortune to all,

Sid Klein

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