

Short, Sweet, & Perfect



July 4, 2010

JAPAN

The following 1-year chart of the Nikkei reflects a pattern that is all too reminiscent of a Japanese trend that is flushing out.

The most recently commenced collapse followed an overshoot of the Dow, and now it is en route to a historically ideal discount to the major US index. There, the Nikkei will, rather typically, have formed the low to what will have been a 21-year bear market (take note that Japanese past...is US prologue).

To appreciate the effect of money printing in driving the US markets for so long, is to appreciate what awaits investors in Japan.

After carefully reading the recently published report (linked immediately below), it becomes plain why investment in **Japanese equity will be essential for diversification into the Yen**, as the Yen itself will finally drop out of my asset allocation model. And Japanese equity provides Yen leverage, too.

Yen Monetization: The Fair Fight?

The following 1-year Nikkei chart reflects its ongoing (and leading) collapse down from 11,400. As readers know, 11,000 was my repeated countertrend target for the Nikkei, at and since its low at 7000.



KOREA & CHINA

The Shanghai index (not shown) peak at 6000 was identified in these pages, as was its low "under 2000." There, SKGS forecast a countertrend rally that would conclude in the 3500 area.

Thereafter, I cautioned that a breakout of the pennant would signal the resumption of its great bear market.

I had wondered if performance could emulate my forecasting with respect to the Nikkei since the latter 1990's. To a great extent, the answer has been positive.

Now, the Korean market represents a great opportunity. Recently, I began reporting that Korea's post-2008 performance (strength) is due to the fact that the 2008 collapse was a Wave-4 decline, which means that it was a final correction in a not-as-yet-completed bull market.

Simply, Wave-5 refers to the final move of the preceding trend, which was up in this case. So, a bull-market concluding Wave-5 is ending right now.

Korea was once a leveraged way of playing Japan, as it swung either way in leveraged lockstep. Since, it became a play on China's economic fortunes, as

well. So, technically or fundamentally, Korea has seen its best days, and international investor sentiment is about to reflect that.

A 3-year chart of the Kospi follows (Korea's main index):



DOW JONES

From the June 6 report:

“To backtrack, we initially went short at Dow 10,250, +or- 50, and then covered at 10,400, based on prior reports.”

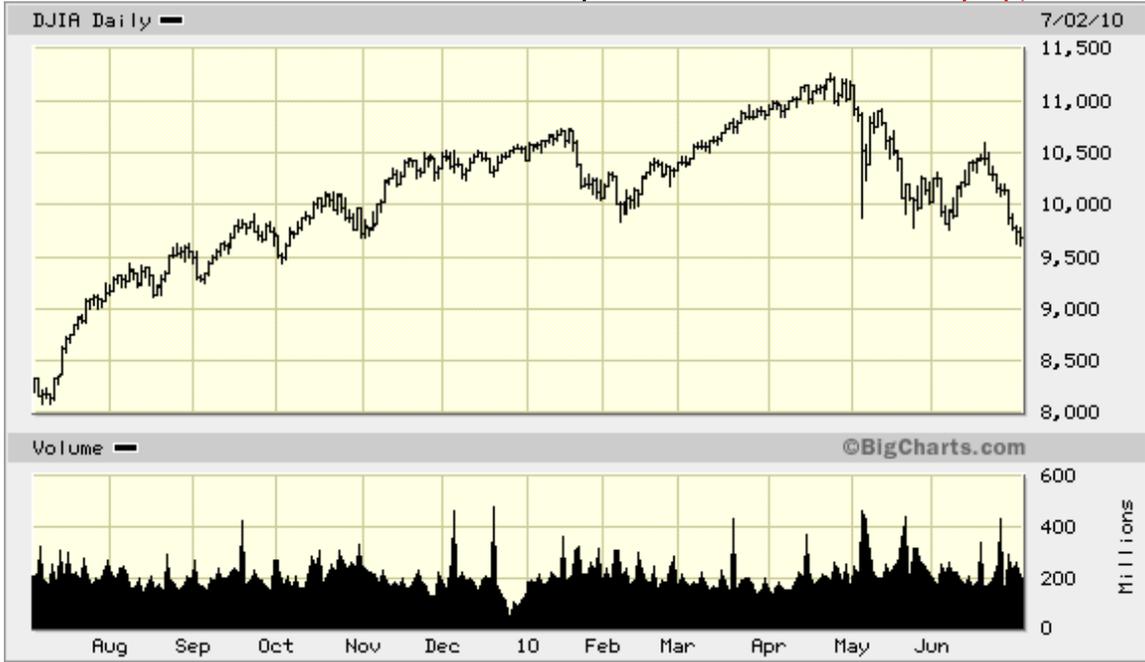
Thereafter, I pin-pointed the Dow's peak and urged shorting more than once.

Meanwhile, the VIX trades, both before and after the Dow entries, were entered and exited to reflect key strategic combinations that would seek to maintain the equivalent of an equity short position, from which we could neither be shaken nor fooled into missing.

And the chosen strategies for playing the short side could only help in defending against being stopped-out, or missing it, or anything like that (long term synthetic long/short positions, or long term Dow puts, or like product.)

The 1-year Dow chart below illustrates that index is hanging by a once Fed-manipulated thread; be certain: “insiders” are out and using CNBC (etc.) to head-fake the public. (Yes, “head-fake” was a pun.)

Anyway, "Under 9000" doesn't seem so unreasonable now. How long before, "Under 4000" doesn't seem so weird? Sure, I'm dating myself, but I remember when "Dow 4000" was considered a really wild forecast....**on the way up, that is.**



VIX

The June 20, 2010 report advised going long at the next day's open. Thus, we nailed another VIX low, this time at 22.87.



PRECIOUS METALS

Gold spiked lower in dramatic fashion (chart not shown) since the last missive, and, just as quickly, I warned investors that it was another manipulated fooler.

By falling with speed and in large chunks, the crowd doesn't realize that gold's corrections have been masked by the fact that they mostly have been up-trending corrections.

So, we are closer to a dramatic acceleration toward 2000 than what many realize. (See recent article, [GOLD 1500](#).)

I forecasted that the reason that would be given for a final correction-concluding decline would be the need for otherwise pained investors to cash in on where they had been placing their fear-stricken funds since May.

Simply, you can only sell what you own.

So, gold surpassed 1200 and, in doing so, masked the fact that its movements were/are part of a correction. Even silver's wave count has become slightly confusing for me for the first time. (Also not shown.)

Still, the latter's chart seems to be in virtual lockstep with the XAU (see [GDXJ vs GDX And Gold](#)). The preceding link explains the case for the type of correction that we are seeing right now in the XAU, even though it carried slightly higher. (Commentary continues following the 1-year XAU chart immediately below.)



The index may have carried a little farther than expected – as did gold itself – but nothing altered the wave counts for anything involved in the precious metals complex, including the related equities.

Once this Wave-C decline is complete, a spectacular opportunity will present itself, of the sort that comes but once or twice a century.

Therefore, I have included the above precious metals-related links. The two PM reports explain how a Wave-3 eruption, to heretofore unseen PM equity levels, may be expected even as the stock market melts.

DOLLAR, DOLLAR/YEN

We are getting ever closer to a revision in our asset allocation model which, of course, will necessitate a closer look at the currencies in a stand-alone report. So,...

ASSET ALLOCATION

For now, my asset allocation model remains unchanged:

50% gold, 50% split between the Swiss Franc, Yen and US Dollar.

A belated Happy Canada Day, including its celebration of democracy and the defense of same, the world over.

And, this weekend, I also wish a Happy July 4th, to all friends south of the 49th.

Sid Klein

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