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2011
Reversal Accelerations

Japan Asia Investments Canada

December 6, 2010

NIKKEI

The title of the **November 6, 2010** report, **"Nikkei: A Yen for It (The Fed Reaches Above 11,000)"** would go on to be substantiated by the events of the past month, though the part pertaining to the Dow is awaiting the turn of the calendar, at which point the already in place reversals will accelerate.

The Nikkei has ended a 21-year bear market and the sky is its limit, to underscore its potential. Well, certainly in outperformance terms (a cowardly qualification is always wise these days, insofar as the *business* of forecasting is concerned).

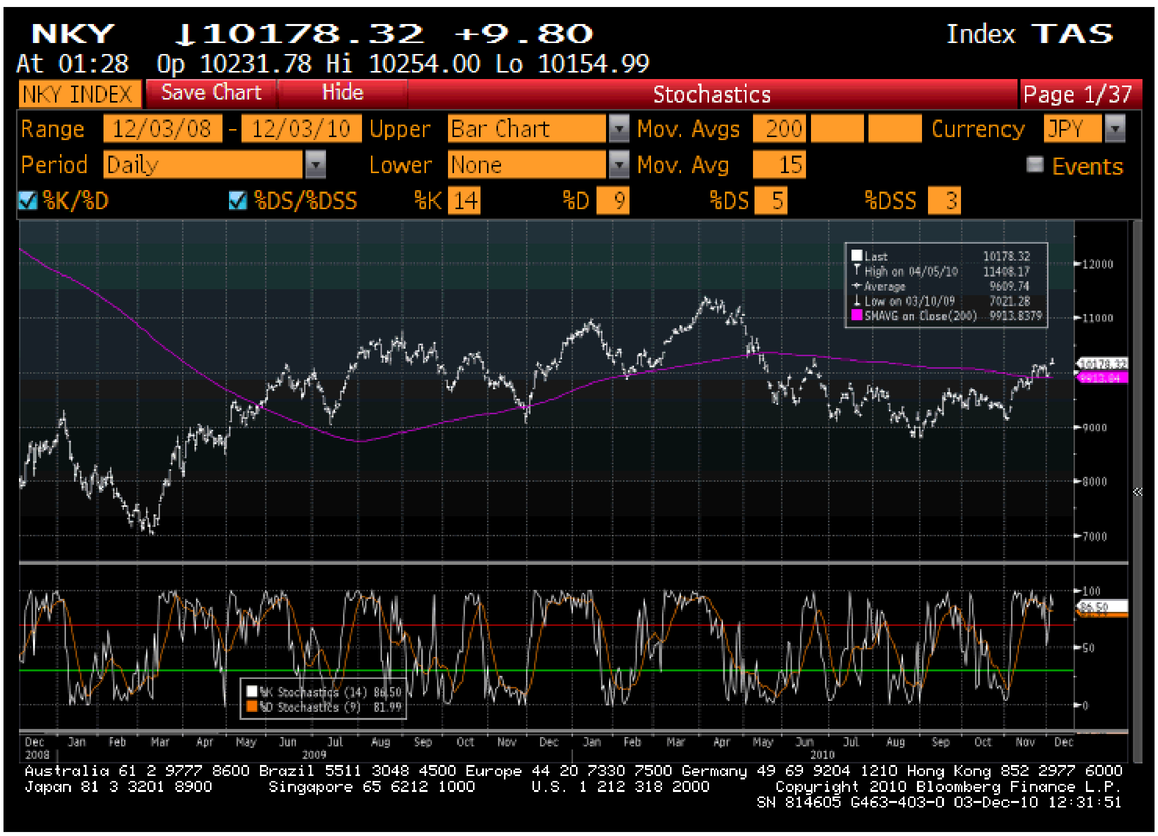
The 1990's had the Dow making higher highs and higher lows, while the Nikkei was putting in lower highs and lower lows. In other words, the former was in a bull market, while the latter was in a deflationary bear market.
There is certainly no doubt that the 2nd sentence of the 2nd paragraph would not have been added, if I did not have concern for the devastating bear market

resumption in New York that will take place if 2011. So, I'm just enough of a coward to add that **the Nikkei will erupt versus the rest of the world in outperformance terms.**

The 21-year bear ends in a few weeks, though a strong resistance level at 10,000, coupled with a negatively divergent daily stochastic suggests that the Nikkei could easily pull back 500 points for yearend to put in a higher low. But who cares?

The Nikkei commentary continues in the Yen section, in which you are strongly encouraged to examine the excerpts that appear there in **bold brown.**

The 2-year Nikkei chart appears immediately below. All of the charts in this month's report are daily 2-year graphs.



November 6, 2010
"The spike up in the Nikkei has left a reverse **shoulder-head-shoulder** pattern behind it. This has created a spike in volatility in that index, of course."

The longer term charts (not shown) reflect a pattern that has liberated itself from the shackles of money deflation, being delivered unto the promised land of paper creation. The latter comes with American blessings for two reasons:

First, the Japanese must do it anyway, since they are not in the habit of going along with national bankruptcy. Second, the Americans need markets and maybe China will not be all that one would crack it up to be for now. After all, Americans already refer to the Chinese as their enemies (as expressed in special reports).

Those who see China as the future to the exclusion of the Japanese are as out of step, as the folks who did not or do not understand that Japanese history has proven that they are always successful at whatever they put their minds to, except as regards military affairs. {That wasn't a backhanded shot. The preceding statement is accurate in its entirety (in the context of long term planning).}

Nearsighted market commentators have actually espoused the belief that the Japanese will break under the burden of their deficits, for a while now. They have done so, as opposed to correctly forecasting the implementation of those measures by the Japanese that are necessary to avoid that outcome.

This is 1989 upside down, when the Westerners who are always wrong expressed their views that Japan was en route to 50,000 and might be in a new paradigm, in which that market never falls. I remember it as yesterday, and THIS IS NO DIFFERENT. Oh my, how often I have written of Western ignorance as regards that market; they seem to NEVER get it right!

Regarding these days in particular, the Western commentators may have been confusing the Japanese with Europe.

To repeat for the umpteenth time: **Power and wealth is being transferred from West to East for the next 500 years.** Separately (still repeating myself), Japan has most of the *established* wealth, majority market capitalization and GDP. China will catch up, for sure. But not by "expiration date." (<u>Much</u> longer, actually.)

That was just a cutesy way of saying that investors who care about the next 3 – 5 years ought to think in terms of Japan, and forget China. Anyone who thinks that Japan is passé remains in vogue, forgetting that being contrarian means not running with the pack to the exclusion of *free thinking.*

The following **1-year Nikkei** chart was published in the **November 6, 2010** report, when the reverse shoulder-head-shoulder was identified. I dropped the notion of a possible new yearend low, which I came to believe would put in a higher low, at worst. (See Nikkei chart on page 2.)

KOREA

Korea has been the strongest major market in Asia and, each time I've noted a 5-wave count to the upside, it went on to subdivide further. The single-most obvious analysis I can provide now pertains to cycles.

Yearend will have marked the end of this major wave up and set up good long/short plays for 2011, with that market now being on the underperforming side of certain intra-Asia long short plays.

As the charts below illustrate, the Kospi-200 and the Dow have shadowed one another. Only, Korea has actually been even stronger.

With the completion of a rounding top by the next time SKGS is published, along with developed technical divergences by then, Korea will be finished and ready to drop once the calendar turns. The first 20% down should lob off rather easily.

Please scroll to page 5.

DOW

I forecasted that I would probably revise weightings on a pullback to 10,000. I did proceed to note that level when the Dow did pull back to 10,000. But I added nothing, except later when I adjusted around 10,250.

Since then, I went on to advise 100% and then 200% short positions at 10,600 and 10,800, respectively. The recommendations referenced long term Dow puts, which, in the listed markets, presently extend out to June 2012.

(As I have written previously, long term puts create opportunities to minimize or repair damage, by the use of spreading at a chosen point, such as the break of a trend, in terms of either price or time.)

Some *mea culpa*, but…..

We may take cheer in the knowledge that there is darkness on the horizon.

The mantra that one should not ever fight the Fed (with which I agree) exists, as the latter's actions lead to the prolongation of rallies. (And, in Japan, the new trend has begun for precisely that same reason.)

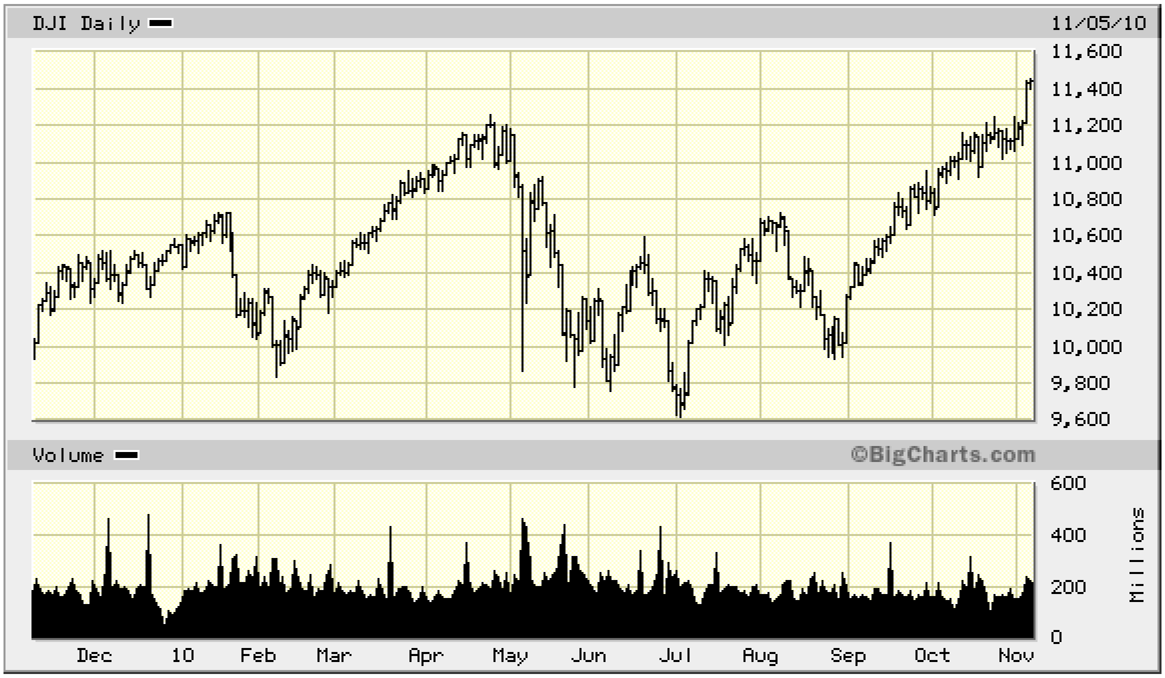
Like a predator emitting a favourable stimulus for its prey, those same Fed actions entrap investors of all stripes (i.e.: retail, momentum players, etc.).

These are major turning points and, for the Dow, the worst is yet to come in 2011. The forecasted **"1931 rally is over!"**

The **1-year Dow** chart on page 7 was published in the **November 6, 2010** issue, so as to suggest that the final move up was underway.

Rather typically, I have continually expressed that the Dow is creating a yearend turning point, which trends to occur during the first 2 weeks of the New Year.

Please scroll to page 7.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©BigCharts.com
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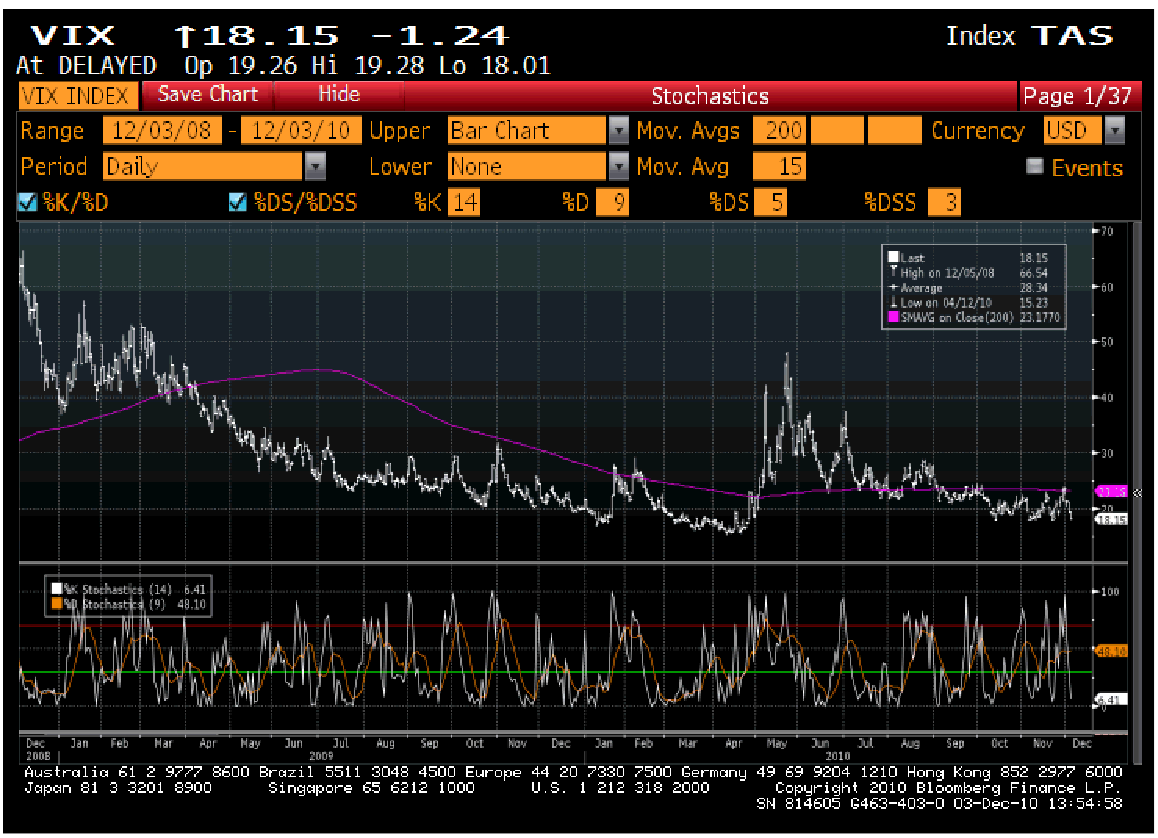
VIX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The VIX is testing the neckline support (~18) created by the head of the shoulder-head-should pattern visible in the 2-year chart on page 7. This index is itching to bust out of its downward wedge pattern which origins date back to May; such breakouts tend to be violent.

To-date, the breakouts have been fake-outs. But not forever.

The stochastic is oversold, but without any divergences. However, we should see the latter by the next time SKGS is published.

GOLD

The pattern since July includes a 5-wave pattern that may complete around yearend, so that a decline in asset prices of all stripes in the New Year may temporarily affect gold as well. That point is moot, however.

In an article I wrote for Gold-Eagle earlier in the year (referenced in previous letters), I forecast Gold 1500, which was the title of the piece. Okay, as of now, for the purposes of judging investment forecasting for strategic purposes, good enough, I would say.

Among the arguments was that corrections are so powerful that they are disguised by actually moving higher during those corrections, as eager long term buyers (such as Easterners) absorb whatever gold that silly Westerners are dumb enough to let go.

The technical arguments included the analysis that, in the context of the preceding the powerful uptrend was being defined by the 200-day moving average, from which it would be getting ever closer to breaking away from, as gold accelerates toward 3500, as I have so often forecasted.

And the chart on the previous page bears most of this out already.

Those amazing geniuses who think that they are the contrarians still call gold overvalued, and they make convincing cases. They always do.

But simpletons should realize that in the breakaway when a trend is in the throes of a Wave-3 acceleration – as per definition – the majority gets to be right.

The contrarians, therefore, enjoy the privilege of being wrong. Dead wrong.

2011 belongs to the mega-bulls, and readers will still more clearly appreciate why I have advised investors to maintain 50% of all liquid wealth in this one true currency.

SILVER

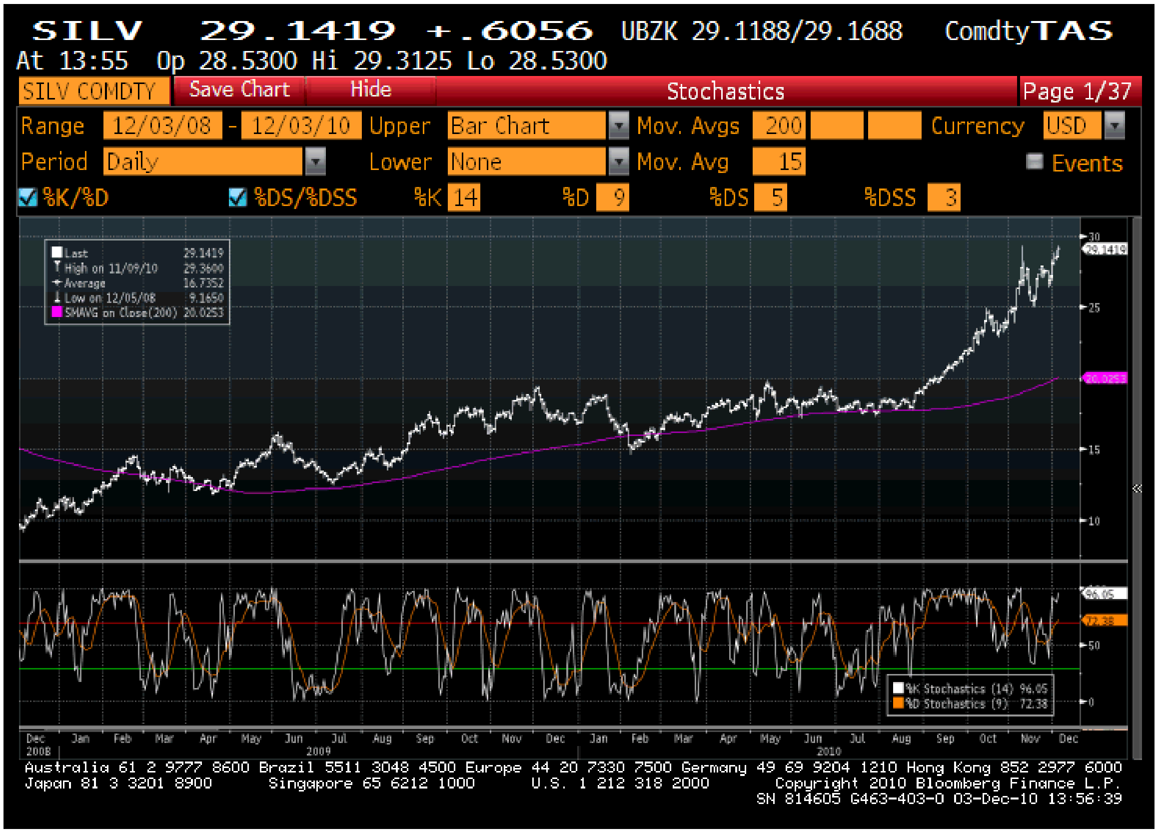
I have not participated since $18, true. The one redeeming feature of my analysis of silver has been my observation that the XAU's pattern most closely resembled that of silver.

Only a single reader picked up on the following question to me: *"If you are not advising 100% investment in the XAU (the gold and silver stocks), and if I am concerned about missing a good move in the precious metal stocks, since you feel that silver itself closely reflects the pattern of the XAU, couldn't I at least buy silver as a hedge against my non-100% investment in those stocks?"*

I answered in the affirmative, since the logic of his question was sound. Silver would enjoy a higher risk-adjusted return, since the metal is safer than equities.

But I never did put in that in print, though I should have, after that reader had inspired that reply to his question.

After huge silver returns since the bottom at $9, including a 200% position for the first $5, this nice recent run was not an official position. My focus was the sure bet called gold, the necessary holding, called gold.



XAU

The XAU has indeed underperformed silver and the latter's superior risk-adjusted return (66%!), but it still would have been nice to have recommended more than the 33% position we finally put on in the XAU, before its breakout from the 165 area. I did that out of sheer respect for the pattern, as I wrote at the time.

Structuring long/short investments, still, I am happy to say that we have not missed the bottom of those structures that are and will be designed to benefit from the precious metal equities' out-performances.

This is why I have maintained that the best time for that will be after a sharp stock market decline drags down the XAU, before the latter breaks away and reverses, as co-directionality comes unglued. Just like **1931.**

(Homestake began to fall with the stock market's resumed collapse, but then broke ranks en route to a subsequent 1000% return, with a run-up from $20 to $200.)

YEN, DOLLAR INDEX

At the time of the November 6, 2010 report, the Yen was trading at 80. We see from the 2-year Yen chart below that the identification of the bottom only weeks earlier at roughly the same price was followed by a reversal to 85.

Now, its price and technical indicators suggest a very typical yearend extreme, albeit a higher low, in the Dollar/Yen chart.

Moreover, consistent with this report's theme of counter-cyclicality, and as pointed out before, the Yen drops, even as the US Dollar Index does so. And it rallies along with the Dollar Index, as well. Hmmm…

This is a fascinating reality, since it completely jibes with Japanese and American equity prices traveling in opposite directions. The counter-cyclicality theme is clear today and, as a Bache trader used to say in his daily commodity market coverage, NEVER correlate markets.

The temptation is to always there do so, however, because, for instance, how could one ever imagine the Yen and USD Index moving in the same direction? As well, who can imagine the Nikkei soaring, even as the Dow melts? Well, that is precisely what my analysis suggests! And, why not?

For 21 years, the exact opposite has been taking place. The US printed money, while the Japanese did not. Now, it is the Japanese who will "create money."

Therefore, it is the Nikkei that will soar during these new cycles. Twenty-one is a technically delicious number, and that is the anniversary that the Nikkei's bear market will mark in 4 weeks.

I know that this is the Yen and US Dollar Index section, but it is all rather inseparable now. **Hence, I strongly urge readers to review the excerpts from the November 6, 2010 report, which appear on page 11.**

"Earlier this fall, I wrote of an approaching turn in the Nikkei after a 21-year bear market, following a final flush-out. I linked that to Yen Monetization, about which I wrote the here-linked article.

(Those for whom the link does not work in this PDF format may type the following into their browser: http://www.gold-eagle.com/editorials_08/klein062110.html

"The signal has been given clearly in Japan that quantitative easing will have remained in vogue, while, at the same time, the Fed has commented that they "…do not intend to use a falling Dollar to support trade." (Paraphrase)

"When there is coordinated action, there is the stuff of a major cycle trend reversal that leads to dramatic price changes.

"In the past this has attended dramatic spike reversals that launched new cyclical trends. I've seen it enough over the past 28 years.

"Both countries have laid out massive asset repurchase programmes. The net effects on the currencies and stock markets are enormous.

"But we must always appreciate that the Bank of Japan is as "competent" as the Fed. They are even more excessive in the use of shock and awe to reverse a trend."

The following Dollar Index chart includes the November low, the month when I identified the bottom in the Dollar, as well the peak in the Yen, after having targeted a bottom in the Yen around 116.50.

Now, the Dollar has run up to massive overhead resistance at 80, where it has also run into its 200-day moving average. This 2-year chart also illustrates a massive reverse shoulder-head-shoulder formation, along with neckline support at 78.

The vagaries of yearend trade ought not to fool anyone regarding any of 2011's trends, though a drive toward resistance at 84 in the Dollar Index need not take up the whole year, of course.

Please scroll to page 14.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