

## Last Chance to Short Dow?



August 6, 2007

### NEW YORK

Dow Jones:

The 10-day chart on page 2 shows a shoulder-head-shoulder upside reversal, to complete the discussed wave 5 of this move down for the Dow. Yesterday's report wrote that patterns are, in fact, completing in various markets (i.e. - oil) around the world (i.e. - Japan).

For strategic purposes reprinted below, **selling Dow December puts on at least a double** (while my benchmark put was en route to a triple, thus suggesting that capturing a double should be relatively easy), would cover the different market scenarios for how the week could begin.

The Dow did not even make it to the 12,800 – 13,000 area. But, guess what? The VIX shot up to new highs, before reversing later. That spike up created the desired option exit prices, just as though the Dow had declined closer to 13,000.

Please recall that I have argued that the VIX used to be a good indicator, when used in certain ways. It is just as predictive, but now when used in different ways than before.

For example, the VIX, I wrote, could discount a move or even anticipate a move that does not even materialize. I won't expand, but merely reiterate the cause, in my opinion:

**Simply, the advent of the VIX as a tradable product in Chicago.**

Before continuing, this interim report is within the context of the here reprinted, in blue:

"However, if this is a bottoming month for the ratio, then the 12,800 – 13,000 area will indeed hold the Dow."

"I believe that the latter and higher area will hold and defer to a longer lasting and bigger rally."

"A decline to and reversal from the 12,800 – 13,000 area could put a bullish stochastic in place for now, however."

In any event, the big story building like an earthquake in the water is the reversal of capital flows vis-vis Japan. The biggest story, in my opinion and memory, at the time of the **1987 crash**, was the word that the Japanese were no longer buying as many bonds, with a logically consistent fear for the Dollar.

As I've written, everyone has been looking to China to continue to wash their money in US assets for liquidity, ad infinitum. The undependable holes in that aside, it is Japan that is world's largest financier. Everyone is about to get a wake up call to that fact.

### **Conclusion and strategy:**

In the context of the following blue-highlighted reprint from yesterday, and within the context of the expressed concern about the pattern for the Dow and the pattern of the VIX (option time premiums have a lot to lose, and the risk is "now to the upside for the bears"), now liquid put holders should wait and see if the longer and larger rally indeed follows, also as per yesterday's monthly report. Let's see if we can get really hot in New York again.

"... the strategy is straightforward. When the benchmark put triples (when short term gains achieve the investor's purpose), profits should be taken. In these reports, the purpose has been to probe the peak in a logical way and enjoy an initial trade on a put that wasn't near term and that at least provided a 100% return. The goal is to build capital

for the more meaningful gains in the next and larger decline in this now-commenced secular bear market in New York. At these put-sellers' market prices, there is a real risk of giving back gains, too, based on the present level of volatilities, both historical and implied. I'm sticking to plan."



**OIL** (special):

There's really only one thing that I can communicate here:

I wish that yesterday's report had gotten to you a day earlier.

Right from the get-go, oil was en route to a \$3.00 swing. Oil has fallen \$6.00 in 2 days from high to low. Those sitting on \$15 gains may wish to accept the quick disappearance of \$4.00, in deference for greater liquidity during a hazardous time and, in such case, **sell anytime over \$73.00.**

It's probabilities time, now. My advice, as with yesterday's recommendation on New York, short-term timing is not reflecting any strategy based on a specific number. That's the "old" way. Premiums. Asset allocation. A host of stimuli.

The following blue-highlighted reprint from this month's edition of SKC offers a reference for the pursuant chart on oil.

"The daily chart above shows oil as being late in its advance, along with a stochastic that is consistent with a corrective period.

"The pursuant 31-day chart of oil collaborates the possibility of some correction, with further stabs toward the high.

**"Strategy:**

The topping process is not at all complete but, with so little to gain vis-à-vis my target from the lows, those who have been long for \$15 - \$20, should liquidate this special situation. The technical indicators suggest that the best is behind oil."



Good week to all,

Sid Klein

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