The Sid Klein Comment
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FOLLOW THAT CURRENCY

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As opposed to writing a report the first weekend of January, this interim comment on the currencies will take us into the year's first month. As for New York, keeping it simple (and without getting into the fundamentals here that correspond to it), 2006 was a cycle inversion. The US equity markets should be almost straight down in the New Year, for the reasons discussed in the most recent issue.

PRECIOUS METALS & DOLLAR:

The first chart below is that of the Swiss Franc, followed by the Japanese Yen graph of same duration.

Our asset allocation mix remains 50% gold (or 40% gold + 10% silver), 25 Swiss Franc and 25% Japanese Yen. The reason for the Franc is that it is the closest to gold among the paper currencies. The Yen represents the Asian block's unofficial currency; it is the one that is most internationally recognized. The Yen is an investment in Asia's growth.

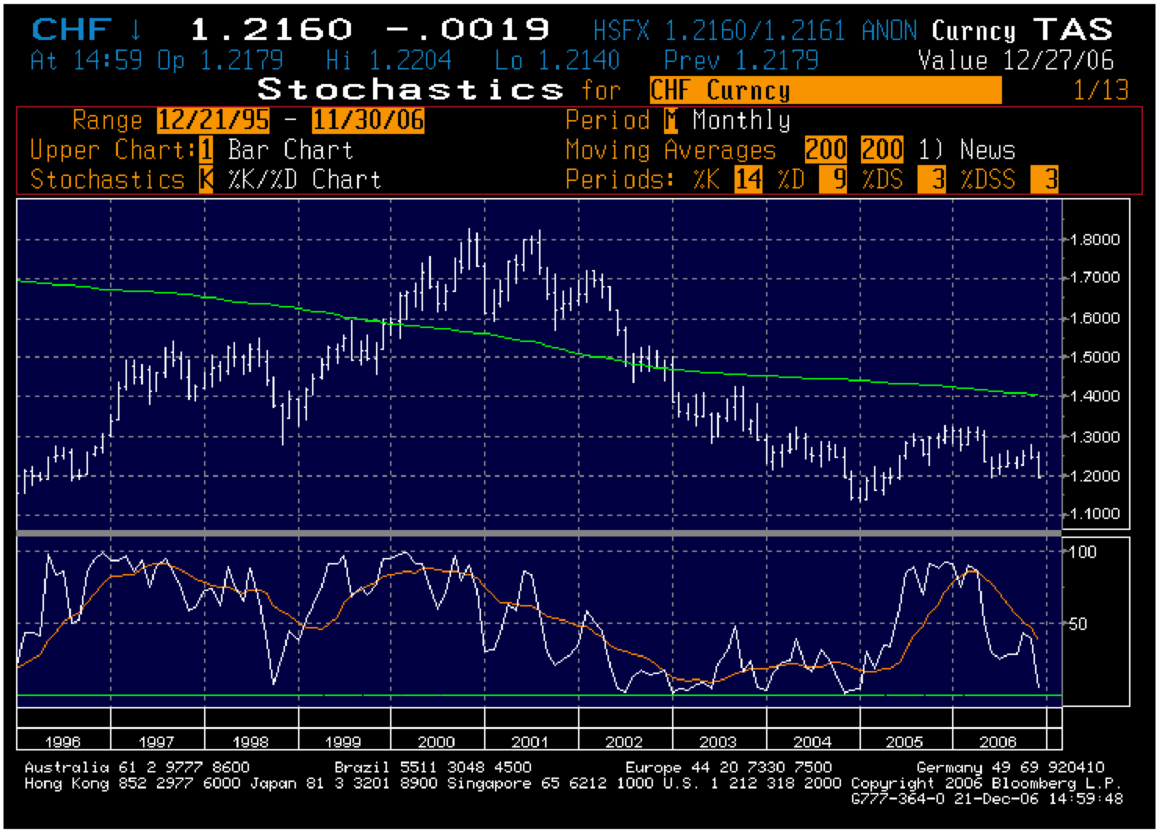
On examination of the Franc and Yen charts below, it is evident that there is far greater potential in the Japanese Yen for profit. Often a change of year unleashes new trends, new policies, who knows. The beginning of the year has very often been the turning point, if only because of the end of what preceded it. And there are many reasons to believe that the Dollar will fall most against the Yen. Of course, the *given* here is that the Dollar will fall; I don't even doubt it.

For investors in domestic equities, this will be a major turning point. An accelerated resumption of the Yen's bull market – perhaps ushered in by the next interest rate boost – will coincide with a flight of more than enough capital to such equities. The theme these days is whatever is countertrend to international markets with historical consistency.

Typically, we see a lag between the Yen's low (usually around 2 months) and the resumption a bull market in Japanese domestic equities. This scenario has been unfolding.

Simultaneously, the Dollar's demise, in its next leg of major cycle decline, will create a sucking sound out of New York, as foreign capital dries up after having been compelled to buy stocks with corporate profits - as long as the Dollar was still rallying. This is all about dominoes now in New York. The reasons are abundant.

Either way, regardless how it unfolds, our asset allocation continues to be the best for this cycle.



Merry Christmas and a happy and healthy New Year to all!

Sid Klein

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