JAPAN ASIA INVESTMENTS

1001 BOUL. DE MAISONNEUVE O., BUREAU 950, MONTREAL, CANADA H3A 3C8
TEL: (514) 939-2221 FAX: (309) 417-0942
e-mail: sidklein@sidklein.com
www.sidklein.com

GOLD STOCKS: RIGHT NOW!
JAPANESE STOCKS: RIGHT NOW, AGAIN!

Feb. 5, 2005

Nikkei: 11,360.40
*April 2003 low: 7,603.76

*- See March 31 & May 3, 2003 reports, along with April 10, 2003 ROBtv interview (5 min.), on homepage.

JAPAN:

The following two paragraph-long excerpts sums it up, having made the case repeatedly through the year that the period of maximal profit would be December 1, 2004 – July 1, 2005.

"ERUPTION in JAPANESE STOCKS", the October 2004 edition of SKC, reported:

"…SKC has looked for Japanese stocks to begin to rally, before making a seasonal low in November – December. From there, a strong double-digit move has been forecast into next summer. These forecasts are here reiterated,…".

From the December issue:

"As forecast all year and so strongly reiterated in recent months, December was pegged to be yet another major low in Japan, forecasted and identified

by SKC. Still, this masks the greater story; DDOVS have turned up and - also as discussed so often – are poised for strong double-digit returns over the next six months."

While identifying the low in a group that no one cared about in the year 2000, Domestic Demand Oriented Value Stocks (DDOVS), SKC and its predecessor versions (SKWF and SKDF) had become better known for publicly, unsurpassed market macro coverage for fifteen years. Most recently on the top-down front, SKC discussed the April 2003 low in great detail (homepage & *previous comments* folder: www.sidklein.com).

What follows are four points that were forecast to occur, and which are **major factors of note in the market and economy today.**

- Further financial or economic shakeouts were/are discounted.
- A list of profoundly bullish measures awaited, and are presently benefiting, investors.
- Japan was already turning out of deflation, which is now about done, based on the use and reading of indicators at lows, in a manner that was again deemed to be too contrarian. Meanwhile, inflation is a fear for the rest of Asia.
- **Finally, the big story in Japan has been the stunning profitability of domestic stocks, so much so that exporters represent a fraction of what they use to in the way of Japanese corporate importance. Who joined SKC 5 years ago in forecasting that we would now see the mirror image of the '90's, when exporters made new highs, against a backdrop of declining Japanese domestic stocks, further implying a contrary relationship in the Yen to that which we saw in the previous decade?**

Five years behind SKC's forecast, major institutions are now slowly starting to make similar cases, based on previously forecasted events that are influencing today's investment environment.

Conclusion: Inflation is accompanying Asia's domestic demand growth, but Japan reflects the desired combination of all factors: The economy will be done with deflation this year, with a banking system that is healed and ready to renew its role as Asia's financier; just as the US was/is the West's financier, so is Japan Asia's financier. Japan is the sophisticated market by way of which to participate in the Asian market, and DDOVS further represent the conservative way of going about such investment; DDOVS are generally up 10% - 15% since their lows of just weeks ago.

NEW YORK:

Let's turn our attention to the US market, which remains in nosebleed territory, where it belongs for those investors who prefer heights. It seems that US bulls rarely look at 25-year charts, perhaps out of fear of being dislodged them from their happy-places. Having begun with the conclusion,…

The Dow is setting up for a triple divergence (worst technical set-up) against key indicators, if a new post-February 2004 high were to be made. Money chasing stocks to new highs just before and after the New Year is very typical and, combined with the contemplated divergences and downward trending Dow chart denominated in foreign currencies, such a new high would only set the market up for a smash that is as violently speedy, as deep.

Oil bottomed right when identified in these pages (see December and January reports) and should therefore play the role described in those letters. Firstly, it will provide the talking heads all they seek as excuse, while also providing another *external* divergence, along with the foreign currency-translated Dow. To clarify, *internal* divergences refer to divergences, between the market and the technical indicators that track it.

Conclusion: The Dow is here seen as being en route to 6500 in 2006, including a violent smash that could occur at any time, once the market's rollover begins. That rollover would be fully set up with another intermediate term high that would be fraught with internal and external divergences.

NIKKEI – DOW RATIO:

At the publishing of the December report, the Nikkei/Dow ratio stood at **1.02**. It then erupted in short order to **1.08**. The ratio closed this past week at 1.06; SKC reiterates the view that this relationship is in the early stages of a massive and lengthy bull market.

A leading, world-class analyst recently remarked that North American investment is provincially-minded, when viewed in a universal context.   Am I to argue?

GOLD:

Gold's position vis-à-vis trend channels and moving averages suggests that there is no reason to delay stock purchases, since stocks lead the metal. Therefore, if the view held here is correct that gold is technically near its bottom in both time and price, our preferred gold stocks (see last month's missive) may have put in critical lows Friday (yesterday).

Last month's views on silver seem to be reinforced by activity. That metal might have more excess to work off technically than gold, but the crosscurrents of opposing technical factors may suggest that the intermediate term correction will have been manifested more by the passage of time, than by a decline in price.

Conclusion: Preferred and particular gold and silver stocks that are leveraged to their underlying assets, should be purchased…now.

DOLLAR:

Please see last month's report. There is absolutely no change in weightings, with respect to long term asset allocation. Recent years' active reallocation has been propitious, and SKC's recent dropping of the Euro in favour of full concentration on the Yen, gold and the Swiss Frank, will have proved to be no less worthwhile.

Until next month,

Sid Klein