

Perfection Amid Pain



August 11, 2011

Due to the extraordinary nature of these markets, including their demands upon investors, SKGS has recently been transmitted more frequently and outside the standard format of publishing regular reports at the beginning of each month.

NIKKEI

All of the markets are moving together but, in terms of the Japanese outperformance trade that I have been discussing and recommending, it is worth noting that, as of 2 days ago, the Dow was down 50% more than the Nikkei from the peak, in Yen terms. (At writing the Dow is up 350 points, so the Nikkei will again come into line to maintain that outperformance.)

For those using futures, it is noteworthy that the Nikkei and the Dow are each available in both currencies, with each tick enjoying the same value, for trading simplicity. And a few easier to transact trades can't be bad, eh?

DOW

May 1, 2011 written by Alistair Barr:

The U.S. bank sector was downgraded to negative from neutral Thursday by the IRA Advisory Service on concern about renewed weakness in the housing market. "The outlook for housing in 2011-2012 is grim at best," said Christopher Whalen, managing director at Lord, Whalen LLC, which produces the IRA Advisory Service. "Most of the large banks with significant servicing

operations in our coverage group are still not yet at the peak of home foreclosures." Residential and commercial property in the exurbs of cities like New York, Boston and Washington will likely come under renewed downward price pressure as 2011 proceeds, partly because gasoline prices are close to \$5 a gallon, Whalen added in a note to clients. Many bank forecasts for revenue, profit and credit costs assume that house prices will rebound in the second half of 2011, he noted. If that doesn't happen, bank revenue and earnings could stay under pressure for most, if not all, of 2011 and 2012, Whalen explained. "Our worry for the next 12 months is that in addition to flat to down revenue and narrowing margins, the U.S. banking industry could see an increase in credit expenses," Whalen wrote. "The Street is not anticipating such an eventuality."

The above excerpt was included to underscore what was **not** being discounted amid the countless negatives that would ultimately come to bear during this vicious phase within the Kondratieff Long Wave.

While Wall Street touts tried to sell the opposite story for a while since May 1, **no**, it is not true that markets can rally in the face of falling bank and other financial shares!

May 29, 2011

"The maximum upside potential I see is 12,800 {12,650 is near term initial stop (if not the whole short term move)},..."

"A final technical note: When indicators become so oversold, it is often sign of trend change, more than any buying opportunity: rookies beware! Simply, ALL taken together in this section, there will be an utter debacle in the stock market, as forecast earlier this year."

A month apart, SKGS probed the perfect peaks this summer, as the best way to catch a long term high is to sell what one believes to be an intermediate peak. And, so close to the 2008 high, it was an easy probe.

As for the comment regarding the "oversold" condition of the market, SKGS readers(?) began to popularize it two and a half months later in the media.

August 2, 2011

"Long term buyers have no reason to come in, so the market's collapse (what can't go up, must fall apart).

"Everything that was forecast within shooting distance of the Dow's peak (albeit not the very first effort) is coming to pass, as the "1931 peak" (as I have called it from the 2008 low, through to today) is plainly confirmed for anyone who may still doubted that. Lower lows lie ahead in the 7000 - 8,000 area.

"This quarter's target for the Dow is 10,600. Given that we may be in a blown crisis right now (in the eye of the storm), we could be

there extremely fast, with the lower **Dow** targets perhaps falling upon us in an accelerated fashion as well.

We have hit the point of recognition within the Kondratieff pattern.

"The **US currency** has no value, financial institutions are dysfunctional and en route to needing a lobotomy, as equity markets collapse around the world. **Gold** entering a panic phase and, reiterating previous letters, we have hit the directionality story regarding the precious metals and the **Dow**. The principle beneficiary of the change is **silver**, as one might imagine.

"While it would be meaningless, the **Dow** could bump up 100 points, but now is the time to be aware that we may be in collapse toward 10,600 right now and not later in the quarter."

The target of 10,600 has been perfectly achieved; this level was forecast from the peak, more than once. Upside reentry for shorting is 11,600 (give or take), a month from now.

VIX

May 1, 2011

"Since its low in the 3rd week of March, the VIX's stochastic (bottom of following chart) has put in a *triple* divergence (**VIX 14.75**). It is to be taken very seriously since, as I write above, quantitative indicators are reliable at lows (in a cyclical bear trend), as opposed to peaks. And the VIX runs countertrend to the Dow, of course."

The backwardation in the VIX futures (along the entire curve) has been telling us this week that the Dow lows were all but seen.

GOLD

December 6, 2010

"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."

"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. (gold \$1,406)

"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.

May 1, 2011

"And when we look at the chart, the *"parabolicism"* referenced in recent reports (as likely being the requisite wake-up call to those suffering from **irrational non-exuberance**) appears to be gaining steam, much as it already has in the case of silver.

"My recent comments have included (reiterated) the analysis that gold is going parabolic within the oft-forecast acceleration toward \$3,500, which also makes the timing of particular price targets as extremely difficult (for me, anyway). Hence, I treat such timing as less important within my strategic mix and approach."

After having written a report last year calling for \$1,500 gold in 2010,...

August 2, 2011

"As for **gold**, the oft-forecast comment for this year was that **gold** would explode over 2000, en route to 3300."

SILVER

May 1, 2011

However, while silver is ultimately going to some unknown stratosphere (concurrent with gold's explosion to \$3,500), I fully expect the metal to correct to ~\$36. (silver ~48)

August 2, 2011

"We realized that the \$32 area was a low in **silver**, since **silver** completes its corrections all at once, based on the activity of these past 10 years. That kind of market behaviour (a spike directly to the final low area) is the only kind of market activity that "shakes the tree" well enough to dislodge some of the metal from long term investors."

Silver has bottomed again. In at 32, out at 37, with reentry at 34. Now, I may take a little off of the table by writing shorter term out-of-the-money calls; at that, only a part of the position will have calls written against it.

YEN

The low was identified at 116.50 (Dollar/Yen) (en route to 124) during the seemingly irreversible carry trade. A few years later, I identified the peak in the Yen last November. More recently, SKGS successfully forecast a decline to 115 (Yen/Dollar).

Since then, we lost 50% on a put spread and a couple of low capital risk short term probes later, amid the printing race, I called it quits with the Yen in the most recent SKGS letters.

ASSET ALLOCATION

Since 2002, no one on the planet has enjoyed asset allocation to such a degree as SKGS, within the context of rarely adjusted mixes that have only included the gold, Swiss Franc, the Euro, Yen and the USD, chronologically speaking.

The breakdown remains:

50% gold
25% Swiss Franc
25% US Dollar

Sid Klein

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