

Intermediate Term Countertrend Rallies Commencing: Part 2



April 15, 2008

In Sum:

The following summary is reprinted from the April 5 report, as it appears that the forecasted final moves may already have been completed, as per this month's letter and the forecasts since December that called for an early April low.

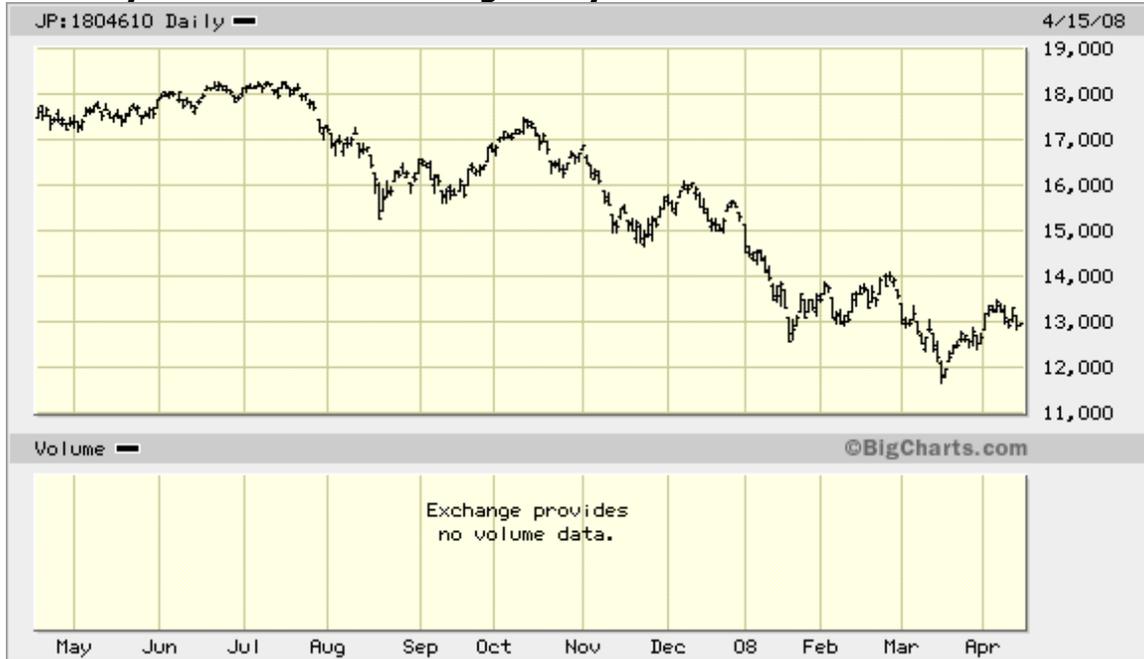
"To follow-up on previous reports, the first quarter's trends in all markets are coming to an end, with perhaps one more move in the dominant direction, whether it makes a new low or high, as the case may be. Such a move may or may not fail. Failing, **in the cases of the Dow and Nikkei would mean** that the bottoms have already been seen. These New Year's extremes in ALL markets won't be surpassed for 3 to 6 months, in my view."

JAPAN

"This would be consistent with the view that the damage done to the Nikkei will require time to repair. It also implies a final move down is commencing, which may or may not fail (to make new lows). In either case, it will all be extremely brief."

As the following 1-year chart of the Nikkei illustrates, those who panicked in January caught most of the lows. As for those equities that

benefit from a strong Yen, all systems are go for an extended move that includes 100% - 400% gains from their final lows for many individual domestic equities over the coming 2 years; even the Nikkei will rally 50% over the coming the cycle.



Strategy:

“High valuation (and even low PE) domestic equities will rally 100% - 200% over the next 2 years, led by those stocks that have recently been the first to reverse with 50% moves.”

These reprinted quotes from the April 5 letter serve only to underscore the view that any remaining drop-offs should be shallow, with respect to the previous and negative momentum. This final decline is weak and seems to be following the preferred script of a move that fails to make a new extreme. For the Nikkei, Dow and Yen, that would mean that the lows have been seen for this initial cycle.

NEW YORK

“While the Dow fell nearly a third in Yen terms, in local currency the index sustained the higher support level, by falling just over half the Yen-denominated loss.”

The 1-year chart immediately below suggests to me that the low may have already been made, while the 31-day chart (2nd on next page) reflects a common pattern for a final small decline. Either way, be prepared to exit any remaining bearish strategies now.



Strategy:

Reiterating, have no positions. Countertrend movements should not be played, as a rule. Place attention only where you believe that the secular trend is on your side. Then it becomes true that "the trend is your friend." For the calm, everything is opportunity.

GOLD

"Those looking to lighten up on the tradable portion of one's gold holdings (a minority position, in the big picture of asset allocation) may do so in the \$930 - \$960 area. Gold's downside is to \$830. Like most times, however, expect much of the correction to take place with the passage of time, as opposed to depth of decline. So, gold too fits the model of a countertrend move for 3 - 6 months."

Recent analysis is unchanged, including the reprint immediately above (also April 5). In the case of gold, then, these trend reversals in the short to intermediate term suggest that the precious metals will be continuing its correction (toward gold \$830 - \$850), to neutralize the overbought long-term indicators (the later-blooming public).





YEN (CURRENCIES)

There is no change in prognosis. While the Nikkei starts its (undoubtedly laboured) move upward, the Yen's correction lower will be shadowing it.

As the second chart (31-day) on the next page shows, the Yen might fall for a final time after this short-term rally into resistance. That is not something to bet on, however. On examining the 1-year daily chart at the top of the page, we see the Yen and Nikkei are continuing to mirror each other.

Please see the April 5 report to view the Nikkei and Yen charts' comparisons.



A good week-ending to all,

Sid Klein

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