

JAPAN ASIA INVESTMENTS

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Japanese Aberration Gold: Nailed Again! Impeachment is Extraneous



April 5, 2006

Nikkei: 17,243.98
*April 2003 low: 7,603.76

*- See March 31, May 3, & May 30, 2003 reports linked on homepage.

JAPAN:

FUNDAMENTALS:

Japanese retailers' dividend income from shareholdings could surpass 6 trillion Yen in fiscal 2005, driven by a move to investment, and away from savings. This was repeatedly forecast during the 2001-2003 period, as SKC noted the relationship between dividend and bond yields, and near-zero rates. Further, in 2004, dividend income surpassed interest income for the first time since fiscal 1980. SKC was alone in promoting value stocks that would soar for reasons such as the above. There was too much in savings (still is!).

On the topic of dividends, relatively new information technology companies will be paying dividends for the first time, from capital that had initially been socked away to fund continued growth. That's how good life is in domestic Japan.

The balance of household assets hit a record and is seen boosting consumption by **.5%** next year. Meanwhile quantitative easing has ended, as SKC's 4-year old(!) analysis of the end of the *deflation trend* was recognized at this time with the end of deflation itself, as the consumer price index numbers have confirmed my 4-year old analysis of that indicator. The latter was forecast because of my ability to identify the former, which no economist did, because they have no training in technical analysis.

Is there still an "academic economist" who wants to argue that there is there yet another indicator that we're to "wait for"? Okay, how about this?

According to the Nihon Keizai Shimbun, total group pretax profits at listed non-financial companies are expected to increase by more than 9% in fiscal 2006, marking a fifth straight year of growth. For the year just ended, total pretax profit is expected to have grown by nearly 8%. Potentially powering a positive cycle of growth, profit growth in this fiscal year would be the first time in a quarter-century that profits would have continued to grow over a five-year period!

As an aside, I would like to follow up on an observation that I had made in Zurich this past October at the **Lombard Odier Darier Hentsch** conference. A questioner believed that labour shortages would crimp Japan's robust growth, due to a cultural unwillingness to open the doors more widely to women and foreigners. Based on my trips to Japan and, more importantly, my analysis of economic planning, I was certain that these changes too would also be forthcoming and that investors really should stop living in the past, where Japan is concerned.

New reports now confirm, less than six months later, that the workplace is welcoming women and foreigners, unlike never before. A new day has dawned in Japan, for decades to come.

Yen:

The Yen has been basing in the 119 area, rallying sharply, before testing the lows again.

As forecast (at the bond market's lows three years ago), quantitative easing has ended and rates are in a new bull market. This too will bolster the Yen, as sure as the value spread between the Japanese and US economies! Importantly, the change in policy has reversed Japanese investor behaviour, toward Japanese and US bonds.

The Japanese government maintains **700 trillion** Yen of assets. It is now looking at privatizing **200 trillion** Yen by parceling off unneeded assets to institutional investors, who now feel wealthy due, to their unrealized stock gains (see below). I have been amused by investors and media alike, who could not understand that Japan, as a CREDITOR nation, cannot be compared to the US. Yet, that's what the perma-wrong foreigner did and still does (amazingly!), when comparing Japan's experience of the nineties to that of the US. In any event, I've had a good laugh reading Westerners discuss Japanese deficits so knowledgably. Petz! (That would be the plural of putz.)

No major fiat currency compares to the Yen for profit potential.

As an aside, the trade balance returned to surplus in February.

REAL ESTATE:

Japanese commercial land prices have risen for the first time since 1990, in Tokyo, Osaka and Nagoya. Meanwhile, real estate deflation is ending, supported by strong office demand and by residents returning to the cities' cores. As previously reported, this will have been further aided by a government plan to move elderly into metropolitan condominiums, beginning this year.

With monthly nursing home care premiums set to rise 24% as of now (after last year's 9% increase), every encouragement already exists for the elderly to accept the government's plan which is designed to make life more comfortable.

The latter is being enacted this year, to support the needs of families in search of larger housing (not in city cores) that would be rented to them by elderly, who will use the income to live where services exists to better service their needs. In any event, real estate peaked two years after the Nikkei in 1992, and I believe the lag time is similar at the bottoming end.

STOCKS:

Creating an aberration, Japanese domestic stocks flushed out to quickly reversed lows, creating an aberration in mid-February. The spike patterns were common in type and occurred against a backdrop of an approaching yearend and an as-yet not recommenced Yen uptrend. As the Yen's lows have held, and given the actions of the US Fed (see below), the Yen's future is most bright. Unlike the export driven Nikkei, domestic value stocks are the beneficiaries of a bullish Yen environment. As yearend passes and the Yen resumes its secular bull trend, domestic value stocks will again resume their leadership.

At the bear market's lows, I forecast that stock appreciation would cause the ails of both government and corporations to disappear and that, for that reason, all measures would be implemented that would cause a shock effect to the stock

market that would send it soaring (see [March 31](#), [May 3](#) and [May 30 2003](#) reports, linked on homepage). Nippon Life Insurance Co. expects unrealized gains for the year just ended to approach six trillion Yen, nearly double the prior year and the highest level in 15 years! The other life companies are also showing staggering improvements, with dividend income powering ahead.

Remember 4 – 5 years ago, when Japanese dividend yields were considered negligible? SKC reported that they were the highest real yields among the major currencies and that this is what would drive Japanese investors (while foreigners were merely looking at the nominal number)!

SENTIMENT:

In March, Japanese retailer bullishness on equities increased by 79%, with an expressed heightened interest for domestic stocks, including value issues.

At the same time, 99% of Japanese executives foresee an expanding economy, according to a Nikkei poll. What were they saying in between 2000-2003? For answers, visit the “previous comments” folder, online. While these figures are consistent with a developing seasonal peak in the Nikkei at this time, they are also consistent with SKC’s forecasted change in Japanese investment preferences for the year to come, to domestic value names.

CONCLUSION:

In every asset class and in every economic consideration and indicator, SKC has been dead on, while economists and market watchers floundered and guessed from their uninformed foreign perches, from whence no clear vision focused. Today, keep sights fixed on a strong Yen and, with that, favourable domestic value stock trends, which should lead to sizeable gains, as recent selected upward breakout spikes suggest.

NEW YORK:

HOO-HA:

Over the past week, the market has been closing weak, against a backdrop of news and fundamentals that would ordinarily make the sane shudder.

Last month’s report, along with Donald Dross’s “**How Now Dow**” (http://www.gold-eagle.com/editorials_05/dross032506.html), make the case for making money on the back of the *insane* argument. Simply, as with the Weimar Republic and Argentina, money printing that debases the value of the currency can also artificially sustain stock prices, in local currency terms.

However, the problem with this “bullish-within-an-apocalyptic-scenario” argument is that foreigners are major players in the US stock market, unlike Weimar. The convolutedly bullish argument on this occasion is that foreigners will continue buying US stocks because they have nothing else to do with the paper. But, as Donald pointed out, this makes particular sense if companies are being bought for control, not mere investment for the parking of cash.

Wow! Have Donald and I been writing market reports, or the basis for a novel? Still, last month’s report described how that scenario has worked thus far and how it could continue to do so. Donald’s fine piece examined this in truer detail.

At heart, for me, it’s all hooey, to hoodoo and hoodwink the hooked bulls, creating hoo-ha among the market intelligentsia.

ECONOMIC INDICATORS:

Newspaper stocks got nailed to lows, while homebuilders have been getting hit hard. The relationship between the two is that the former suffers when the latter results in lower advertising rates (fewer classified ads).

Homebuilders and real estate equities, along with the bank stocks that are so reliant on the health of the real estate sector, did well during the 2000-2002 stock market trouncing. Investors had gone in search of “safe haven” stocks, just as they had between 1990 and 1992 in Japan; we know what happened there!

Homebuilders, newspaper stocks, ad rates and the commencement of the banking sector’s demise are all major indicators. In fact, all but the latter are supposed to be *leading* indicators, remember?

I would like to recall the indicator of SKC choice, during the latter part of 2005. Consumer spending shadows consumer confidence, on only about a one-month lag. If consumer confidence were to return to the level of early in the fourth quarter (since the numbers changed by the end of the quarter’s end, those levels do not appear on any chart, since the indicators are quarterly), a historically undeniable indicator would be at a level that corresponds to a Dow under 7000!

The best market hook is one that causes an investor to consider something that has no or almost no precedent. The investor’s self-loathing is at its very best thus, once the obvious crash ensues.

The gold and Dollar section will examine how this can work out in a bullish fashion (Canadians read carefully), but the bearish nail in the coffin for any possible continuance of the ignoring of basic and historically proven indicators would be the impeachment of Mr. Moron.

There exists an array of choices for the commission of such presidential term curtailment. While I do not claim to have fully researched the following, it would be another set of lies that the American public could use to justify rage. I took it from the Bullion Buzz March 14, 2006 report and the quote is credited to John Williams, the publisher at Gillespie research:

"Real unemployment right now - figured the way that the average person thinks of unemployment, meaning figured the way it was estimated back during the Great Depression - is running about 12%. Real CPI right now is running at about 8%. And the real GDP probably is in contraction."

IMPEACHMENT?

SKC has reported the view that the market may well make best efforts to lay blame for the first wave of debacle at the doorstep of an extraneous event. Is presidential impeachment extraneous?

For lovers of the psychic, Nostradamus wrote that the anti-Christ would be a pawn, who would be prematurely replaced. Evidently, in attempting to determine the name of the individual in such affairs, the first two or last two letters can be dropped, if I got it right. After dropping the first two letters (we'll suppose), Nostradamus wrote that the bad guy's name would begin with "bus".

Let's face it, a guy who could say "evil-doers" a couple of dozen times in a single national interview, without ever being called on it, is definitely "special". For good measure, he has forcefully proclaimed that he has accepted Jesus Christ as his savior*. To be truly serious for a moment, that last one had totally offended me, as it should anyone, regardless one's background. So, either this guy's got a ton of chutzpah, or he really is the "anti-Christ."

And, if so, what a heck of a reason for impeachment, no?

Okay, don't say that SKC doesn't give investors their money's worth.

TECHNICAL INDICATORS:

The first indicator below updates the Dow's monthly chart, with its monthly stochastic underneath. The last three years reflect a perfect triple-divergence of a very "heavy" (long term) indicator, including divergences within each of the three years' peaks (this was examined in closer visual detail, previously).



The **next** chart is an updated look at the VIX, the S&P's Volatility Index. This is a contrary indicator that ordinarily makes lower lows with new market highs. Last July, followed by this past December and last month, the VIX recorded higher lows against a backdrop of higher Dow levels (the S&P has been even stronger). Therefore, I conclude that this is another serious triple-divergence but, rather than being a momentum divergence, it is one that spells increasing volatility while a market top forms.

The **pursuant** chart updates the Dow priced in gold, as opposed to USD. The collapse has resumed to new lows, en route (eventually) to Richard Russell's forecast of par. Yes, the Dow and gold will eventually be at the same level but, for now, note that the market has already been more than halved and, if priced in USD, the Dow would already be below 6500! Since the value of that currency is being debased, this is the more correct way of valuing the Dow, particularly since what has been supporting the Dow is precisely that which has caused the eruption in gold: the Fed's printing press.



The following looks at the Dow priced in Euro. Here we see a disastrous pattern, wherein a corrective pattern appears to be concluding and preparing to resume its collapse. It is followed by a chart of the Dow denominated in Yen, and a commentary on that indicator.

<HELP> for explanation.

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Worksheet List Edit Options G 30 - DOW V EURO

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N193 Index G

Worksheet List Edit Options G 31 - DOW V YEN

G31 Daily 452000 b 442006



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Our last chart (immediately above) is the most fascinating. This look at the Dow priced in Yen, reflects a five-wave pattern, in Elliott Wave terms. This supports my conclusion that, going forward, the best fiat currency for capital gain is the Japanese Yen. It also supports the view that the Dow may be concluding its secular bull market now. My view has been and remains that the secular bull ended in January 2000, and that a countertrend rally is being completed. Still, imagine if the 2000-2002 train wreck was the final correction in a bull market. I don't believe it, but it would mean that the market is *even* worse than I thought (whatever that would mean). Anyway, it's splitting hairs. What we can conclude is that no Japanese in his right mind would want to hold US stocks. Well, that goes for anyone.

CONCLUSION:

The minefield is laced with political, fundamental and technical explosives. CRASH.

* - ***“Not even Jesus would forgive what you do.”***
“The Masters of War” – Bob Dylan

PRECIOUS METALS & DOLLAR:

From the February 5, 2006 report:

“Since gold broke out of a contracting triangle above \$440, a wave three of three for this move is completing, which should result in the entire move’s completion in the \$600 area, by quarter-end. Meanwhile, due to momentum, a wave-four correction should be contained by \$540.”

As we can see from the chart below, and according to the blue-highlighted excerpt above, SKC again identified a **perfect top in the price of gold**, while forecasting a subsequent low that was barely breached, as gold fell into the Elliott Wave interpretation that was provided. This week’s move to just under \$600 confirms that the analysis in February’s report was accurate, from top to bottom, and right up to this level. Traders may be temporarily out of gold, as per February’s forecast, though investor’s should not change anything in their asset allocation

From the March 5, 2006 report: **“After having identified the low in the \$410 area earlier in 2005, the fourth quarter’s low at \$455 was forecast within \$1.00. As well, \$500 by yearend was the reiterated market forecast in these pages. These forecasts followed three years of prognoses that were globally unsurpassed, for the timing of key turning points in gold (Gold excerpts summary).”**

The following chart reflects the analyses and forecasts above:



The currency commentary begins with a quote from Ludwig von Mises, which I took from the Bullion Buzz March 7, 2006 letter. It replies well to the Weimar/Argentina “bullish” argument:

"There is no means of avoiding the final collapse of a boom brought about by credit expansion. The alternative is only whether the crisis should come sooner as a result of a voluntary abandonment of further credit expansion, or later as a final and total catastrophe of the currency system involved."

Important messages and analyses are contained above in the New York section. There, an indication appears that the conclusion of a bullish consideration for US equities would be continued in the **currency section**.

The “bullish” equity scenario exists within an otherwise financially apocalyptic situation that calls for printing so much currency-debasing money, that it has to have much of it flow into equities. Above, I expose that as a silly notion, but add that an alternative exists, which would allow the Fed’s and US government’s plan(?) to succeed:

Canada presently is governed by a minority government, but one that is headed by an extremist neo-con, who is truly learning the con game well. He has been

well coached and, according to Al Gore, is being well funded by those with whom he seeks to unite.

Via NAFTA, the US has taken much of Canada's sovereignty. According to a NAFTA ruling that is consistent with the deal that Mulroney struck (neo-con who introduced the "trade deal" in the early nineties), the US owes Canada \$5 billion for illegal lumber tariffs. The US has refused to pay, claiming that the discrepancy between the currencies is a form of subsidy. Canada has not left NAFTA despite this, as the economy is in the grips of the US government's will, as a result of the deal's effects.

Canada's economy has been crippled by an advancing currency, which propaganda claims to be caused by high energy prices. The latter has largely benefited foreign oil concerns. The large move up in the Canadian Dollar is due to financial imperialism, as the US debases its currency. The US plans staggering new currency printing, as it is unconcerned about its value versus other countries.

The plan may simply be to continue to move the Canadian dollar toward par, even though our economy and national wealth has only been deteriorating since NAFTA's inception, in real terms. Then, the US would propose a common trade zone and currency. This would be used to create a new piece of paper, while securing still further all of Canada's resources, and destroying her political influence altogether at the same time.

By achieving the latter, the US would be aiming to succeed at a plan to debase its currency, until there is no more debt (coupled with the new North American currency, the acquisition of new rights and resources, etc.).

Under such a scenario, US expansion would feed off this country's resources and what it has to offer US citizens, as a larger expanse in which to live [State television (CNN) has already aired propaganda that the US is running out of living space]. Simply, this would be the modernized version of Weimar (print and replace with a new currency, which includes Canada and Mexico), along with the story of the need for "living space". *This* is the "bullish" scenario.

Otherwise, as described in the New York section above, our recent presentations of the bullish equity scenario (money printing takes stocks to new highs even as the currency is debased, a la Weimar and Argentina) is just a bunch of hooey. Unlike Germany, the US can annex its neighbours and secure the needed resources, while attempting to thereby resolve its currency crisis. In that sense, most frighteningly, this time may be different.

Hey, Mike Moore, are you getting all this?

On Donald Dross and competitor envy:

Donald Dross broke the story that the silver ETF could be backed by Warren Buffet's silver holdings that would be held on consignment (http://www.gold-eagle.com/editorials_05/dross022806.html). The idea, in brief, would be that the discount in silver would thus be removed (which is happening), while providing greater market liquidity and the opportunity for Buffet to sell his silver whenever he felt like it in the future, at whatever prices he wished to sell it at.

Okay, some folks didn't understand the perfectly written piece right away, but more fascinating has been the reaction of other letter writers who initially scoffed at the logic their mighty minds could not grasp, only to later espouse the idea. It's okay to be wrong or right, but being petty or without class should be enough to cost anyone their credibility. Humility is a sign of intelligence, boys.

Finally, Donald followed up with a piece on CZN (http://www.gold-eagle.com/editorials_05/dross032406.html). Within less than two weeks the stock rallied 30%. Based on his report, that's nothing, for the long term holder.

CONCLUSION:

Asset allocation remains 50% gold, 25% Swiss Franc and 25% Japanese Yen. Regarding wealth asset allocation, it is fine to maintain 40% gold and 10% silver. Silver's timing continues to coincide with that of silver's. So, as per February's forecast of a short term peak in the metal, ensuing price low and subsequent rally toward \$600 for quarter-end in gold - for trading positions - one may be out of the precious metals.

As you can see from the red-bolded link above, SKC remains the world's premier source for precious metals timing, since January 2002. Merely trading and investing in the metals has paid all the bills, Readers are well informed. Investors are well-paid!

Sid Klein

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