The Sid Klein Comment
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It's Beginning to Look a Lot Like Christmas
(The Masters of War)

December 17, 2007

NEW YORK

At the lows at the end of November, everyone was short and bearish. Market law teaches us that when that is the case, the market will find a way to run in the shorts, since that is what the demand side is pulling towards, while the ground is perfect for such a short covering panic. Indeed, all the stories that came out did so to facilitate that very eventuality. Those stories won't be covered again here (see December's regular issue).

I wrote too, that Thanksgiving sales are the smart money's proxy for Christmas and that they portend something very bad. I reminded that bad consumer sales are followed within a month by a bath in the Dow.

When the talking heads were reassuring that Europeans were going to go to the US to bail out US consumer sales, well, that was a sign in itself of the desperate chatter of industry touts whose jobs are to sucker investors into buying the brokerages' inventories of equities. I'll never understand why TV stations allow the industry to use them like that. Remember when Ron Insana was still around? Anyway,...

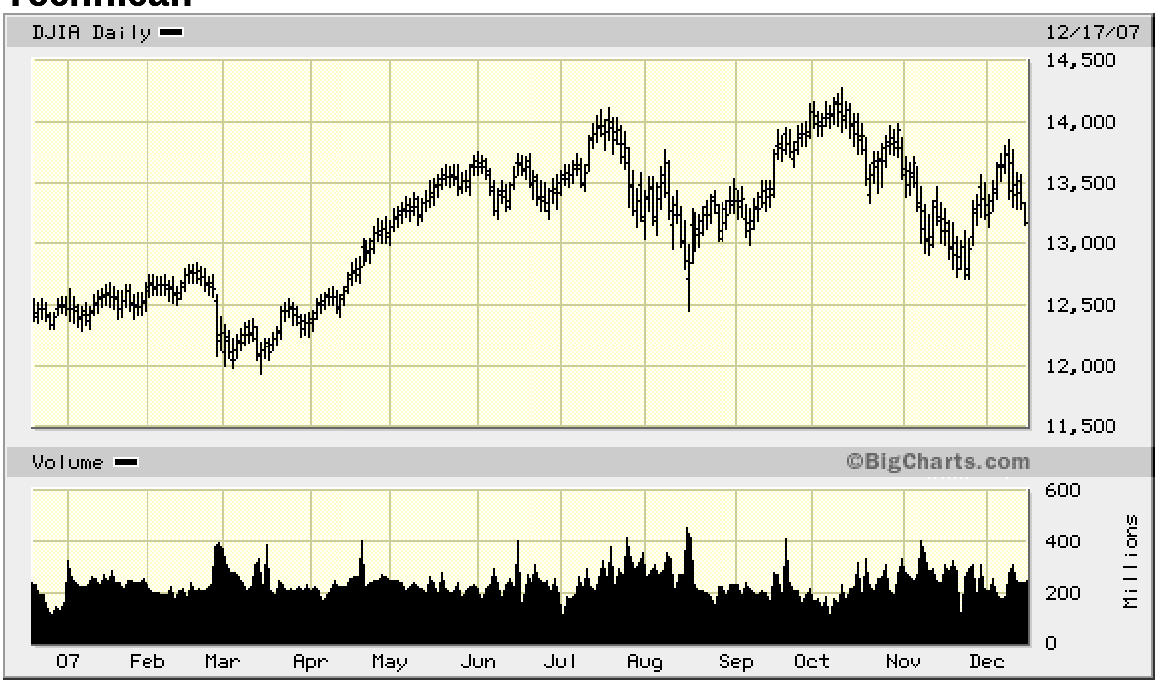
Another comment I saw fit to make was that with the knowledge that Christmas sales were going to be bad then a "war" (read: slaughter)

might be a good idea. My doubt stemmed from whether the Masters of War* would want a Christmas slaughter, albeit of those heathens, the Moslems (Jews aren't in season anymore…for now, anyway). But if we're talking about the clairvoyant's "anti-Christ", given the unbridled demonism displayed over the past 7 years, why rule it out? And I can't.

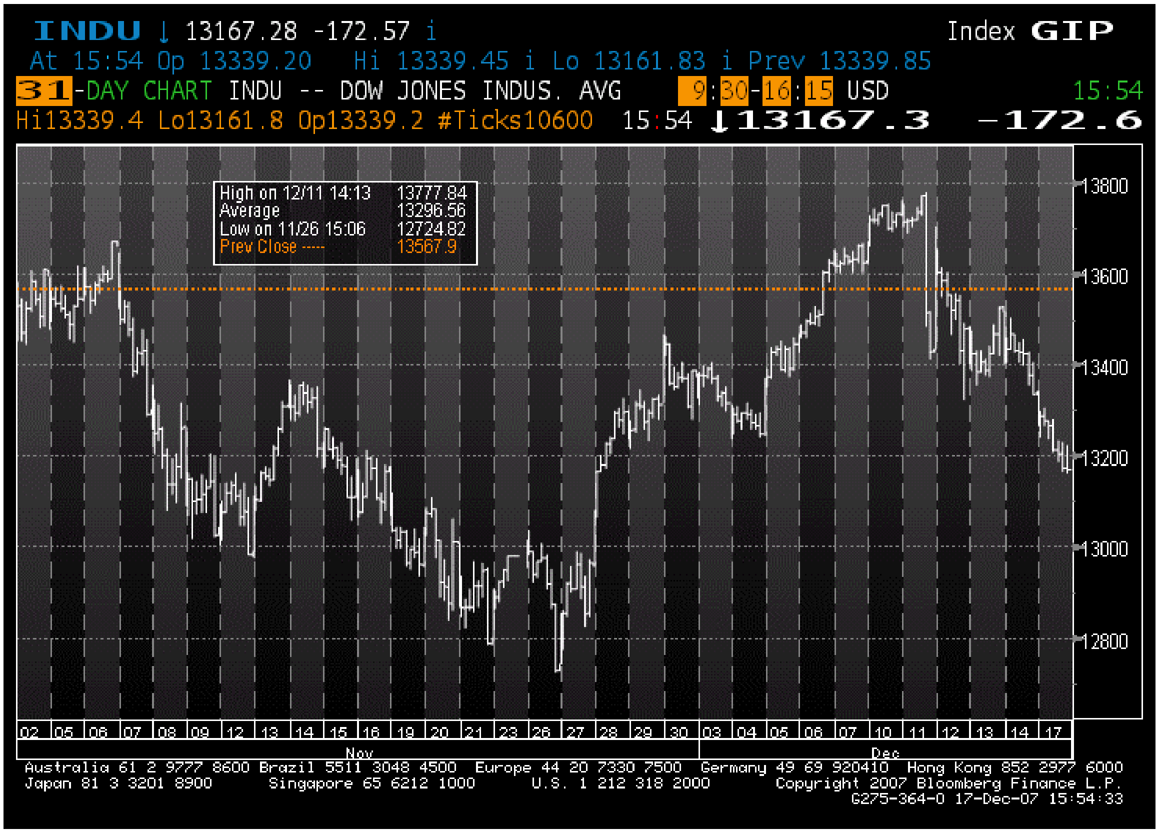
Last week, the market suffered a viscous smash and oil spiked $4 that day. The news was NOT that an invasion of Iran was imminent. But if not for Christmas, wasn't that the most logical conclusion? With a bad Christmas at hand, that would be the most desired diversion, by a monstrous gang who feel there's as little to lose as Hitler did during his last days when all he wanted was death, including the death of as many Germans as possible (however, this gang sees profit potential). Sane people don't understand such minds. Though maybe I shouldn't admit that.

Anyway, everything ugly is possible. Chanukah is past, so the lights are now out. No festival. Just bad sales, bad markets, and poor tortured Moslems, who aren't being prosecuted to avoid the horror stories of their torture. I am so ashamed that Canadians had to turn over captured Afghanis to the torturers. But back to the markets…

Technical:



The sloping right shoulder suggests that the Dow could collapse to 12,000 fast, with 11,000 a swift and stunning yearend possibility as I've been forewarning, even if less likely. Nothing is happening during the expected time periods, and hasn't been for a while.


INDU ↓ 13167.28 -172.57 i
Index GIP
At 15:54 Op 13339.20 Hi 13339.45 i Lo 13161.83 i Prev 13339.85
31-DAY CHART INDU -- DOW JONES INDUS. AVG 9:30-16:15 USD
15:54
Hi13339.4 Lo13161.8 Op13339.2 #Ticks10600 15:54 ↓13167.3 -172.6
High on 12/11 14:13 13777.84
Average 13296.56
Low on 11/26 15:06 12724.82
Prev Close ----- 13567.9
13800
13600
13400
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12800
02 05 06 07 08 09 12 13 14 15 16 19 20 21 23 26 27 28 29 30 03 04 05 06 07 10 11 12 13 14 17
Nov
Dec
Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 920410 Hong Kong 852 2977 6000
Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2007 Bloomberg Finance L.P.
G275-364-0 17-Dec-07 15:54:33


CCMP ↑ 2579.49 -56.25 i
Index TAS
At 15:55 Op 2623.23 Hi 2626.37 Lo 2576.74 Prev 2635.74
CCMP INDEX
Hide
TAS - Stochastic
Page 1/19
Range 12/18/06 - 12/17/07 Upper Bar Chart Mov. Avgs 200 Currency USD
Period Daily Lower None Mov. Avg
%K/%D %DS/%DSS %K 14 %D 9 %DS 5 %DSS 3
2900
2800
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2600
2500
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100
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Dec 29 2006
Jan 31
Feb 28
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Jun 29
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Aug 31
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Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 920410 Hong Kong 852 2977 6000
Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2007 Bloomberg Finance L.P.
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The first chart on page 3 (a 31-day Dow graph) reflects the end of a counter-trend rally, which breaks down the 1-year daily chart that precedes it on page 2.

Meanwhile, the second chart on page 3, the daily 1-year Nasdaq chart, reflects an ominous pattern that is ready to crumble. The following chart is a 31-day Nasdaq and it provides a closer look, while illustrating an index that is encroaching on its November lows faster than the Dow. In fairness, this is evening up the out-performance of the Nasdaq that preceded this recent period, but it is true nonetheless that, as in the past, weakness in the tech stocks is a kiss of death, particularly with the financials in such dire straits.

VIX:

The daily VIX (S&P Volatility Index) chart immediately below continues to illustrate a pattern that is perfectly contained and defined by its 200-day moving average, and for very logical reasons (the 30-day chart follows it). An imminent breakout to and beyond 30 is consistent with a collapse to 12,000 on the Dow, including a commensurate big spike in the put premiums.   Get ready for it.


VIX ↓ 24.50 +1.23 Index TAS
At 15:56 Op 24.13 Hi 24.73 Lo 23.42 Prev 23.27
VIX INDEX Hide TAS - Stochastic Page 1/19
Range 12/18/06 - 12/17/07 Upper Bar Chart Mov. Avgs 200 Currency USD
Period Daily Lower None Mov. Avg
%K/%D %DS/%DSS %K 14 %D 9 %DS 5 %DSS 3
Dec 29 2006 Jan 31 Feb 28 Mar 30 Apr 30 May 31 Jun 29 Jul 31 Aug 31 Sep 28 Oct 31 Nov 30
Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 920410 Hong Kong 852 2977 6000
Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2007 Bloomberg Finance L.P.
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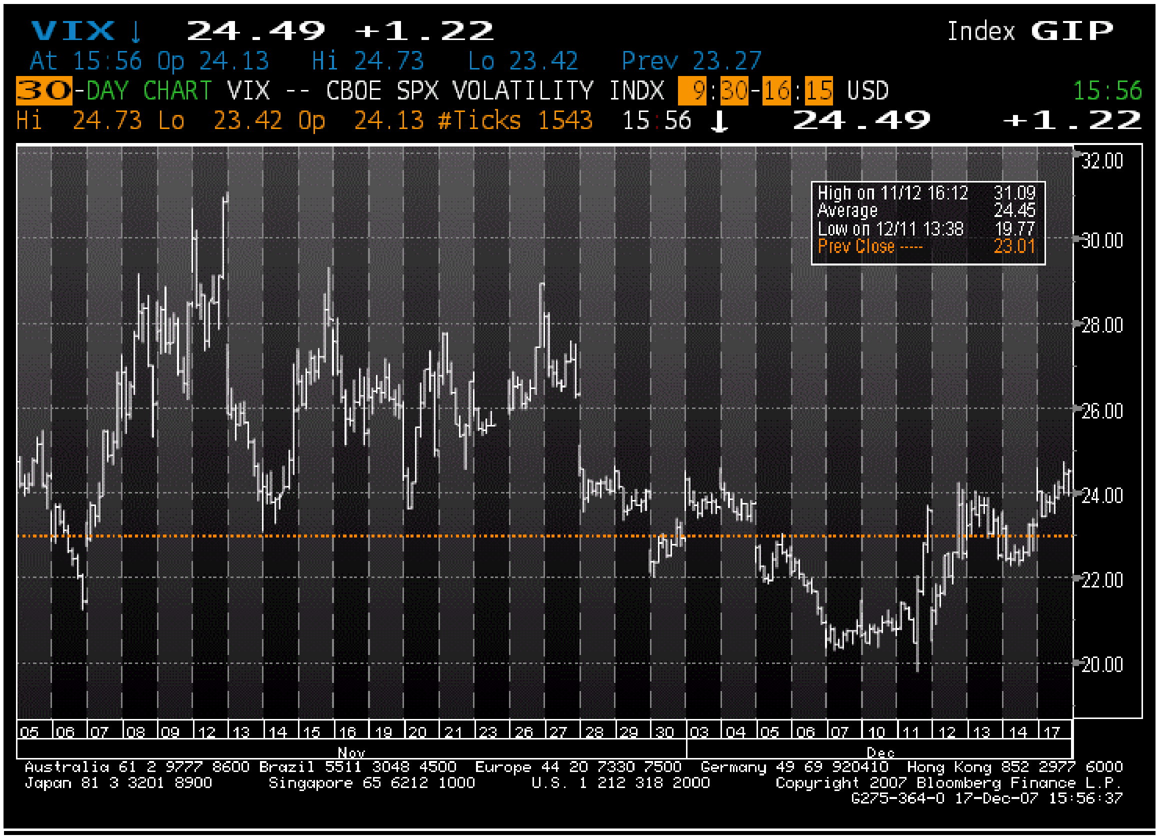
VIX ↓ 24.49 +1.22 Index GIP
At 15:56 Op 24.13 Hi 24.73 Lo 23.42 Prev 23.27
30-DAY CHART VIX -- CBOE SPX VOLATILITY INDX 9:30-16:15 USD 15:56
Hi 24.73 Lo 23.42 Op 24.13 #Ticks 1543 15:56 ↓ 24.49 +1.22
High on 11/12 16:12 31.09
Average 24.45
Low on 12/11 13:38 19.77
Prev Close ---- 23.01
Nov
Dec
Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 920410 Hong Kong 852 2977 6000
Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2007 Bloomberg Finance L.P.
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Yes, it is beginning to look a lot like Christmas…for the bears, with or without Dylan's Masters of War (1960's classic about the US military machine that seeks to profit by the mayhem it creates).

Read the conclusion from the December 2, 2007 report, which is reprinted here. It was perfect, as too will have been the prognosis for 2008. Do you really want to bet against it?

"Conclusion and strategy:
A move toward 13,600 would be (is) a good opportunity to short the Dow, because 14,000 is not worth waiting for, if the downside next year is 8800. The concerted effort to save another Christmas is providing a glorious opportunity to short 2008, which even the powers-that-be have surrendered to the bears, on a fundamental basis. The Dow in 2008 has an appointment with 8800, and even the first quarter may well get the job done. I've learned this over the last 25 years: When the Street realizes that something is going to happen, they just make it happen and don't wait for others to sell ahead of them. Remember, the Fed has already forecast a weaker 2008. HEAR THE BELL!!! It's ringing so loud, it's drowning out the fat lady."

(Please scroll down to page 7.)

<u>Update</u>:
Regarding the special opportunity discussed a couple of weeks ago Shanghai is already 20% off its highs. Best prices are for those who are well prepared and who seize the fleeting moments that provide the flushed-out premiums from which sophisticated players seek to profit.

An inter-market play requires that much more expertise. This is even more so the case when attempting to truly maximize gains, by tailor-making a situation to capitalize on the extreme market opportunities that are presenting themselves, by hand picking the indices and engineering of same, to ideally suit the forecasted scenarios.

Good fortune to all,

Sid Klein