The Sid Klein Comment
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MONEY TIME!

January 7, 2007

2006 Summary: I hope and trust that all have passed the holidays in good health and are rested for an exciting and rewarding year.

Last year was nearly perfect in the **precious metals** again, while **New York** proved to be a disappointment once more, including the 1-year puts. The **Yen** indeed bottomed but then did nothing, though the **Swiss Franc** was much stronger. The **Nikkei's** low at 14,000 was perfectly identified with a special report that was published as the market was declining to its low the same night. However, it was a terrible year for **domestic Japanese stocks**.

Friends, 2007 will be profoundly different in New York and Japanese domestic equities, and that – quite happily – we'll be able to take to the bank. And so, we start with a look at money making, during this **critical month.** Regarding Japanese fundamentals and the precious metals, expect interim reports through the first two months. First things first, though, as SKC wants readers' priorities to be clear and ready…now!

JAPAN

Consistent with the bullish Yen commentary later in this letter, I'll reprint the next paragraph, taken from the December report:

"For investors in domestic equities, this will be a major turning point. An accelerated resumption of the Yen's bull market – perhaps ushered in by the next interest rate boost – will coincide with a flight of more than enough capital to such equities. The theme these days is whatever is (has been) countertrend to international markets with historical consistency."

The following 18-month daily JASDAQ chart reflects an approximate 30% decline from last January's peak to its November low. While the pattern allows for a little retracement, support above 2000 is significant, particularly as the Yen has bottomed and prepares to lift off.

In fact, please note the pursuant weekly chart that dates back to 2000. The support above 2000 stands out more, particularly as the trustworthy 200-week moving average clearly indicates that the low is imminent, if not already achieved, as the 200-week MA reflects a crowd of long term investors who took sizeable profits to make way for a new "generation" of strong holders. The past year got rid of the I-only-want-big-companies investors; the next year will shut out those same weak holders, as the pattern is typical of a completed cycle.

To reiterate (from the December report), there is no doubt that a greater layer safety rests with investment in mid-cap value issues, but when foreigners think of domestic Japanese investment, they tend to think of small stocks. Hence the big swings from one year to the next. Indeed, the mid-caps have been base building, even as the small stocks have been collapsing due to a dearth of buy support.

However, anyone already involved in such stocks via funds (for instance) would be most ill-advised to let go of what should be a dramatically outperforming group going forward. In fact, they will not fall even as the Dow collapses and the Nikkei gets hit with a final leg to and revisit of 14,000.

While such a decline to 14,000 is not guaranteed, the Nikkei's pattern would be that much healthier. The Nikkei would converge with the 200-week moving average, thus clearing out long term profit-takers. Also, such a decline in the Nikkei, apart from dumping the late-coming index players, would jive with a rallying Yen and the Dow's initial phase of collapse.

Two JASDAQ/Nikkei ratio graphs follow here. The first is a 2-year chart that reflects a top-to-bottom collapse over the past year of about 43%! The pursuant weekly chart from 2000 that follows it shows a drubbing that can be interpreted as complete, in terms of Elliott Wave analysis. Certainly, it indicates a collapse to neckline support that should make anyone comfortable about switching from big-caps to small or, preferably, mid-cap issues.

The charts on page 6 are of the Nikkei/Dow ratio. This past November's low was formed with a completed A-B-C pattern that tested critical 2005 support. That support, quite typically, is smack in the middle of the explosive phase that was enjoyed by the Nikkei's out-performance versus the Dow.

The second chart on page 6 dates back to 2000 and clearly illustrates a decline into neckline support, as the 2002 peak was encroached upon. It is also noteworthy that an approximate 50% correction has been achieved of the entire bull move in the relationship (ratio) from 2003!


<HELP> for explanation.
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2005
2006
Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 920410
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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 L.P.
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Strategy: Clearly, the charts above, consistent with the fundamentals of the West and East, indicate that wave-3 is set to commence in the relationship between the Nikkei and the Dow. I forecasted its low earlier this decade and projected that we'd now see the mirror image of the 1990's, when it was the Dow that had made higher highs and higher lows, while the Nikkei made lower highs and lower lows. Now, you will see a historic acceleration of the Nikkei/Dow which, at one time, was as high as 14! Today's level just under 1.4 is a joke that again spells a massive opportunity for global asset allocation managers.

It doesn't end there. Forgive the repetitiveness, but to maximize Japanese returns one must be invested in the right theme. Further embellishing on the paragraph above and consistent with the findings in this letter, one shouldn't be invested in the Nikkei but, rather, domestic mid-cap value stocks. They have corrected their own bull market of this decade and are poised for a new cycle of explosive multi-year gains…once again.

NEW YORK

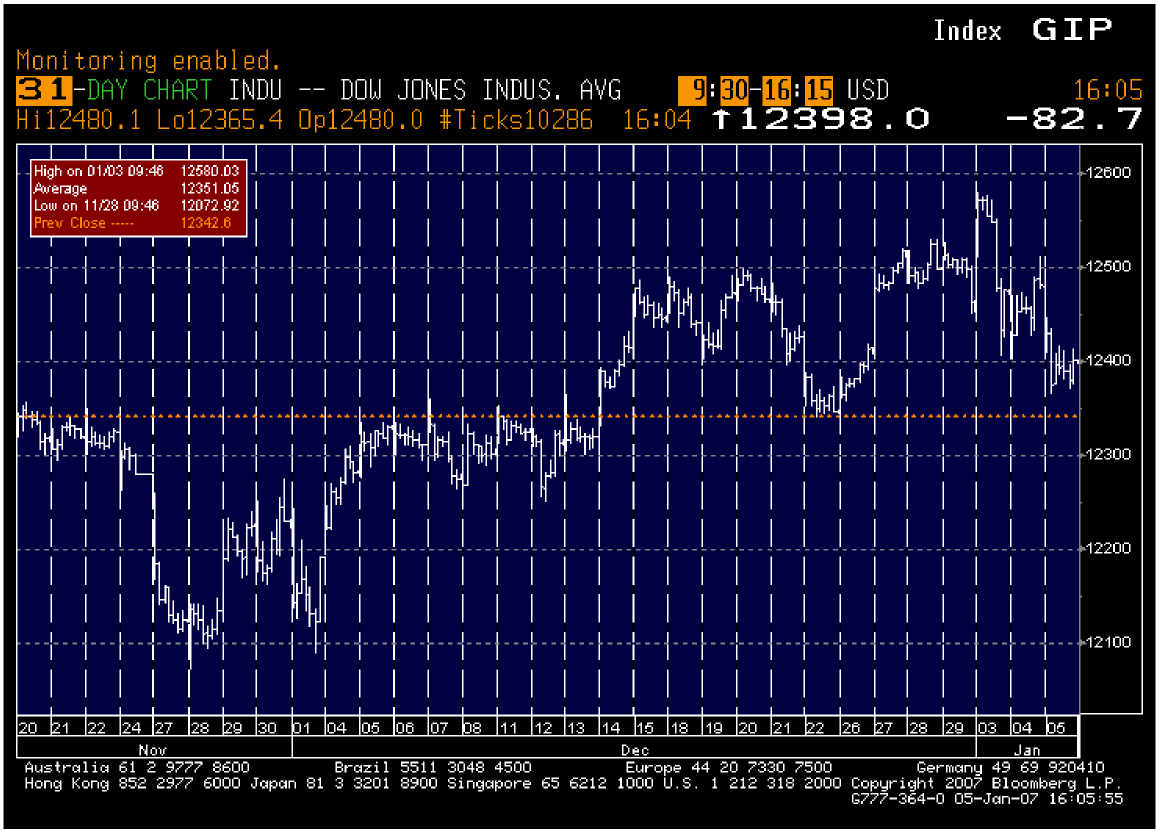
The last of the three charts is a 7-year weekly graph that illustrates a triple divergence and a market that is dangerously far from its 200-week moving average, which is about 2000 points away!

The second chart below is an 18-month daily graph. We see wave-1 being completed this past July – August. Wave-3 ran from August to November. As forecast in the fourth quarter, wave 5 was seemingly completed in December.

As was the case in Tokyo in 1989, I wrote this past quarter too that the market (the Dow) is going up despite obviously perilous fundamentals and valuations, merely due to monies that were already committed to be spent by yearend, after which no theme would remain to sustain the corpse.

The very first chart below is a 31-day graph that reflects a nauseating quintuple-3, which is the most bearish of all conclusions. As was the case in 2000 with respect to the Dow and unlike the Nikkei in 1990, despite the bad beginning to the year, there may be a fake-out. The daily stochastic (second chart below) allows for a bounce, and a minor rally would create a divergence!

Most importantly, and as I wrote in January 2000 when I identified the Dow's peak within a day, a minor new high would stop out those who bet against the yearend peak, while lending comfort and complacency to those who would again shrug and conclude, "Who knows when this will all end?" My gut says it will happen, to mark top tick and the final stop-out.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Average 12351.05
Low on 11/28 09:46 12072.92
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Nov
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Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 920410
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INDU ↑12398.01 -82.68 Index TAS
At 16:04 Op 12480.05 Hi 12480.13 Lo 12365.41
Stochastics for INDU Index 1/10
Range 6/ 5/05 - 1/ 5/07 Period D Daily Base Currency: USD
Upper Chart: 1 Bar Chart Moving Averages 200 200 1) News
Stochastics K %K/%D Chart Periods: %K 14 %D 9 %DS 3 %DSS 3
2005
2006
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 L.P.
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Strategy: I am providing commentary that is more academic than practical at the bottom of page 7. Any final squiggle is irrelevant. December 2007 puts will hardly be affected and the initial and relatively minor move down should provide 300% - 400% returns, simply due to the levels of the Dow and the Volatility Index. The puts will return in excess of 1000% and, traded properly, can return well in excess of that (15x – 20x). The numbers are ridiculous. Simply bid something above the bid and closer to the offer. The puts can be purchased in two increments, with the second one at the final minor high I envision but in which I do not recommend confidence. Do not look for an excuse to chicken out due to past market activity. I always wrote that puts reflect a limited risk situation and, therefore, even if after 3 years, losses can and would made up and dramatically surpassed once the bear begins….quickly and convincingly.

We are there. I am again in sync with the Dow and strongly advise action. This will even dwarf the speed and size of success enjoyed in Japan in 1990. Do not miss this opportunity. The 4th quarter's reports were in preparation for this. We are there. **Starting in the morning and concluding by mid-month, one should be fully invested in December 2007 puts,** if not already invested. **THIS IS THE OPPORTUNITY OF A LIFETIME IN NEW YORK!**

PRECIOUS METALS & DOLLAR

Gold ($606.70) is in a triangle that, when breached to the upside, can catapult the metal as high as $800. However, the pattern has weakened in the short term. Does it matter? Nope. The downside is about $25 from here. If you're watching such minor moves, you're doing it all wrong, set-up to be one of the many to be stopped-out of an obvious and still easy bull market, as I've been writing for five years.

Silver has returned to exactly where we want it for our preferred strategy ($12.20). Wait, and you wait for nothing. Buy in the morning, if you're not already 200% long (50% margin).

The Japanese Yen (8433) is at as good a price as one could hope for. The currency is ready to take-off at any time and the morning is as good a time as any. For those using futures, the price quoted here is consistent with that market, though 8433 represents cash. According to the investor's approach and needs, the term (time) of contract is at the latter's discretion. Of course, long-term investors can simply buy the currency in the manner recommended in these pages (AAA debt instruments). The superior strength of the Swissy and Euro offer a window into the future of the Yen, which will dominate ALL currencies. It may even be the only currency against which gold does **not** increase this year.

Strategy: Remain fully invested in gold, as downside is only to $580, anyway. Silver, however, has now provided a second chance for investors to benefit from my previously published strategy to be 200% invested. In other words, BUY SILVER ON 50% MARGIN NOW! Do the math; what are your returns on even a move to $20, which is a lay-up once the previous high at $15 is broken. One needn't worry about the metal's price getting cut in half. **The short interest alone, guarantees against that.** This is a wonderful opportunity for retail and institutional investors alike to benefit in a major way, with the risk as little as is great the reward potential!

100% long Yen. My asset allocation continues to be 50% gold (or 40% gold + 10% silver), 25% Swiss Franc and 25% Japanese Yen. Don't expect this mix to change anytime soon. *Actually, I can't foresee when I would change it.* I have absolutely no doubt whatsoever that this is the best asset mix for this cycle and this exceptional period within the Long Cycle. None whatsoever.

Sid Klein

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