The Sid Klein Comment
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Bulls' Stampede, Bears' Capitulation: The Panic at Peaks

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NEW YORK
Dow Jones:

There was no upside exhaustion, capitulation or panic (choose your preferred terminology), so I didn't pull the trigger on buying this next round of puts, particularly since the S&P Volatility Index (VIX) was trending higher and thereby making puts more expensive.

Yes, the VIX's up-trend is bearish for the stock market, but the timing for put purchase was not fortuitous, nonetheless. Indeed, premiums have remained high, relative to the market, in the context of recent trading. From the July 7, 2007 report (this month's letter):

"It is noteworthy that the Dow's all-time highs will not have been confirmed by a new low in the VIX, which runs countertrend to it. This has occurred before and the Dow did follow-through to the downside, without inspiration from a new low in the VIX."

Also, I was looking for…"….backdrop of little upward index progress *relative* to the size of put premium decline,…"

We have had the opposite today. There was a big move up, but put premiums have not made new lows. Here, I am not referring to historical volatility, which is tracked by the VIX. I am referring to implied volatility…the real, non-theoretical world. For these premiums to capitulate, the scenario will indeed be…"….backdrop of little upward index progress *relative* to the size of put premium decline,…"

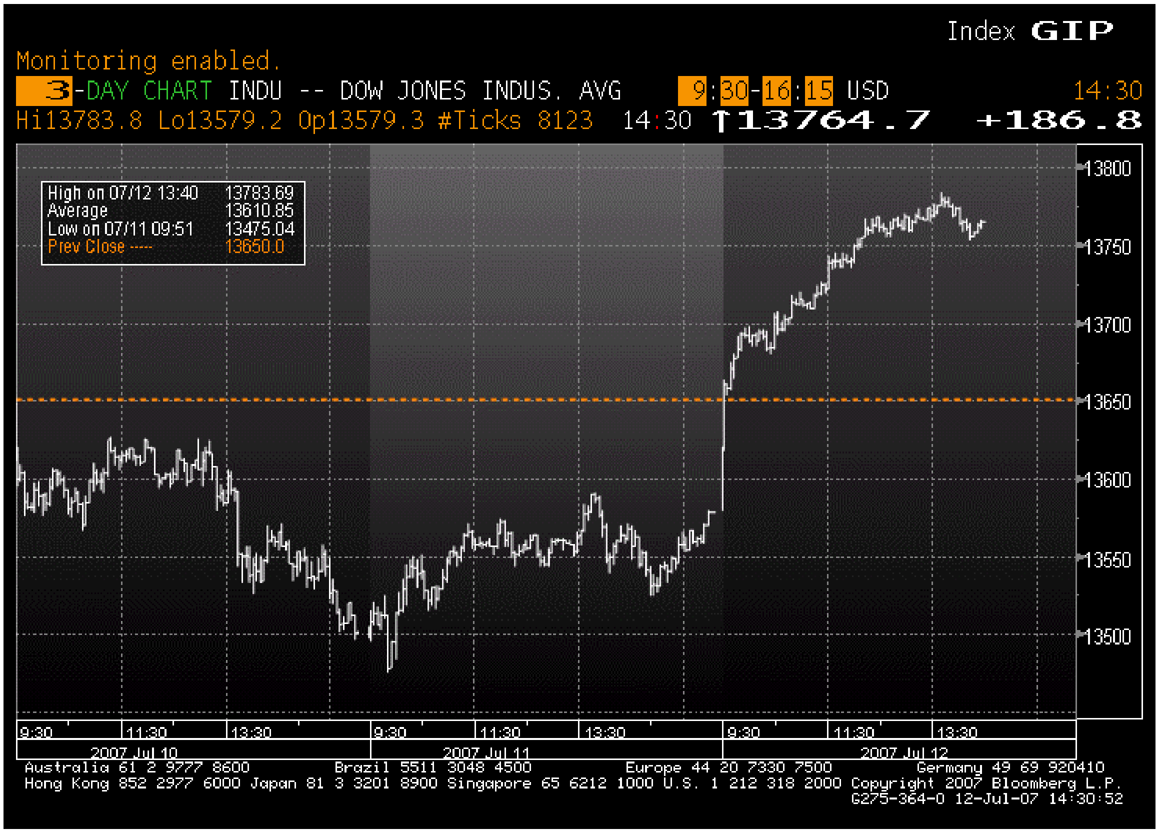
So, we bears simply require a period of relative quietude during which time implied volatility (put premiums) fall sharply, relative to the market action. This month's latter was intentionally a bit vague, merely advising to enter the puts when the VIX hits another buy point. So, I will issue another interim report to advise put entry.

I have done this a many times in more than one market around the world at major secular and cyclical turning points over the past quarter-century. Of the tops and bottoms, and we know is the rule, timing peaks is and has been so much harder. This is why it is so much more complex, particularly when using the most difficult instrument to analyze, which, of course, is options.

I guess, insofar as New York is concerned, this is where I earn my money for you. Keep the powder dry…and stay tuned.

The Dow chart below shows that the index has completed the vast majority of this short-term advance. Therefore, don't be surprised if the index merely trades in a 200-point range to complete the pattern and, most importantly, allows historical volatility (VIX) and implied volatility (put prices) to flush out, as per the commentary above.

Please scroll down:



More Sizzle That Steak:

By the way, today's action is typical of so many of the major peaks that I have identified, in that we can assume that it is merely Bears covering their shorts. Yesterday, the concerns were profits, a widening trade figure (today) and terrorism this summer in the US. But, today, did something so much more important occur?!

Yes, Walmart is showing better than expected numbers, along with many of the retailers.

It's summer, with Bears running for cover before their family camping trips, or voyages to the Riviera or the Hamptons.

It's all just numbers now (technical). It's a matter of time. It's just boys being boys, and we'll do our best to beat 'em all.

Good fortune to all,

Sid Klein

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