

JAPAN ASIA INVESTMENTS

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NAILED!

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Nikkei: 9624.80

April low: 7603.76

JAPAN & NEW YORK:

Summary:

Japanese stocks have broadened and accelerated their advance. The Nikkei erupted 2100 Yen, top-to-bottom, from the April low and since SKC made the following comment on **May 3, 2003**, days and only slightly above the April low.

“Since our last report, the Nikkei touched down at the 7600 level and, consistent with the New York forecast here, feels to me to have now put in its secular low, notwithstanding the fact that the Nikkei is to be shunned, given the alternatives.”

With the spike up, the Nikkei has easily surpassed the level of the Dow (ratio now above 1), a cross-trade in which SKC has expressed enormous confidence (in 1990, the ratio was 14 times higher). For now, I believe the Nikkei has peaked, in the short term. Getting here sure was fast, eh?

The Dow is completing the first leg of a 3-staged countertrend rally. The Dow should pullback now toward my target of 8300. A higher support level would involve a correction that takes more time, than less.

JAPAN:

Stocks:

Insofar as technical analysis is concerned, long-term internal indicators suggest confirmation of a turning point from washed-out levels, which indicates dramatic DDOVS gains for hundreds of stocks. Often, when looking at 10-year or more indicators, we are seeing upward spike reversals, which the Nikkei been and is lagging (while countless equities continue in their long since begun bull markets).

As reported, stock fund in-flows have been masked by market declines. **Stock fund (investment trust) in-flow has been net positive 15 months in a row as of May!** As even the Nikkei has now finally taken off, the dual positive of fund in-flows and rising prices led to the biggest valuation gain for investment trusts since December 1999. A positive buying momentum shift has occurred, as evidenced by the almost $\frac{3}{4}$ trillion Yen valuation gain.

Liquidity:

Compounding this (see preceding paragraph), foreigners have been major buyers of Japanese securities, having invested almost 2 trillion Yen since May. Foreigners will continue to pour in funds, as they were badly underweight Japanese stocks right at the lows. Foreigners have reversed course toward proper levels of exposure. This alone is a major market driver. Recently, foreigners have been buyers of stocks, 9 weeks in a row.

Economy:

The May trade balance was above others' forecasts and in keeping with prior SKC forecasts for resumed strength in this indicator. This remains another positive for the Yen. The surplus shrank with the US, while increasing 24% year-over-year with Asia (this includes the deficit with China, which again diminished). This ongoing comparative performance illustrates why DDOVS have been, and continue to be, great out performers.

Consistent with last month's (May 30) comment, May corporate liabilities fell 40%, while the number of bankruptcies fell as well.

Current Account and Basic Balance figures have remained very strong positives for the Yen. Japanese, meanwhile (typical of Yen lows, historically speaking), have purchased foreign bonds, aggressively. The combination of the 2 latter points seems to me to all but secure SKC's strong forecast for Yen appreciation, which is consistent with DDOVS success.

May Industrial Production was strong, while employment continues to improve. The latter's strength is a surprise to most onlookers but SKC noted, in the 4th quarter that, as 1 of the 3 leading indicators to not turn bullish in 2002, employment would turn positive this year.

Conclusion:

The eruption in the Nikkei is consistent with SKC's recent forecasts that a liquidity-driven buying stampede that would be led by foreign fund managers could ensue.

The fact that the Yen has been about the strongest currency, while the Nikkei rallied and the "real stock market" took off, added to the fact that long term rates have spiked up in Japan, summarizes the very set of conditions that we were looking for.

Whether the "real" Japanese stock market or the meaningless Nikkei, whether pertaining to secular, cyclical or intermediate term trend activity, SKC has remained committed to offering the investment world a premiere source of forward-looking analytical research. Contrarian one day, news the next.

NEW YORK:

While Japan may be 1000 points higher since last month, the Dow has barely moved. SKC looked for an "A"-wave peak for the Dow that will have been created by the managers' needs to "buy the dips that wouldn't come" (chase the market higher). Sure enough, the managers kept the market up.

Wave "A" should now have peaked, which would be consistent with SKC's scenario of a 2004 1st-quarter top. This is due to what normal timelines would be for the next 2 legs of this **secularly counter-trend cyclical bull market**.

Two factors leading to the coming intermediate and cyclical term peaks in the US market include the discounting of the spending of Iraq's oil dollars for the purposes of the country's re-building. This will increase the demand for oil, lowering its price and thereby further fueling stock market buying right at the peak in 2004's 4th quarter.

Remember, this time, the powers that be want higher oil prices, in order to fund the re-building efforts that benefit those powers.

The strength in the US banking stock index, is in step with the low in **Japan's** banking index. It is also blowing off with real estate, the next great disaster (see "Real Estate" sub-section in May 30, 2003 report).

GOLD:

Last month's comment reported:

“The metal may retrace from here ‘toward’ \$330, with support at \$340. As stated in these pages so often, the bottom line is still that gold remains in a massive secular bull market, with the next major stop within the secular context being \$500”.

Right on cue, gold pulled back sharply toward \$340 and the 200 day moving average. The correction may be over or it could yet decline toward \$330 but the point is moot. What matters is the activity in gold stocks.

Those that are leveraged to the price of gold have been outstanding and did not decline as the metal declined sharply from \$390 to \$320. As these equities did not previously rally as gold soared, it struck us as obvious that smart money would use the supply created by weakness from \$390 to accumulate, as public money would trade, missing the big picture, along with the here oft-contemplated eruption to \$500 per ounce.

SKC's view in 2002's 4th quarter was that gold and the Dow would rally together. Our reasons were consistent with what has indeed ensued, confirming SKC's confidence in its interpretations of today's technical and fundamental conditions.

DOLLAR:

Massive Bank of Japan (BoJ) intervention had little effect, underscoring the Japanese Yen's strength. Last month, we called for a Dollar correction that would be milder than what one might expect, thereby allowing time (rather than price) to be the prime corrective factor (see May 30, 2003).

The Yen's correction may already be over, while the Euro and Swiss Franc may have another minor down-leg to go. As SKC has stated, the Yen is now our currency of choice, deemed to be the strongest fiat currency, from today's levels going forward.

The \$CDN will breakdown as the US Dollar index rallies to 103, through the Dow's rally into the 1st quarter of next year.

Sid Klein

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