

CHANGING RELATIONSHIPS...& EXTREMES



October 4, 2006

NEW YORK:

TECHNICAL:

The bulls have their "Mission Accomplished."

In the world of technical analysis, a new high that is considered to be countertrend suffers the most violent of reversals, since it musters up peak bullish enthusiasm at a point that is actually at a more advanced stage of the bear market in question. This bear market in the Dow began in 2000 and this post-2002 rally is therefore countertrend, as the Nasdaq and S&P among others cannot possibly confirm.

This is a bear market. That's the basic thesis to not lose sight of. If this month closes negative, the bearish theme remains intact for the intermediate term as well. This is a daily thing. Remember, albeit a new high in the Dow, it is countertrend nonetheless.

Strategy:

Our only New York positions are expiring puts from eighteen-months ago (December 2006), and long term Dow puts again. No regrets. In foreign currencies, the decade's performance in the Dow has been the worst of any of other reasonable global alternatives. Priced in gold, the Dow fell to about 6,500, and SKC's performance in gold since January 2002 has been without parallel. Our various songs remain the same.

OIL:

It helps for election-time purposes to have lower oil prices, but then the unmitigated greed that has dominated this period will again exact a price. My assumption for oil remains that there is a final large (wave-5) move up, as a final money grab ensues. But with the Democratic Party victories comes possible impeachment, unless Cheney is feared to be an embarrassing alternative. Imminently, the market will be factoring in and then panicking about both political as well as economic uncertainty.

Strategy:

In any event, oil tanked the morning after the most recent report was transmitted. The strategy remains the same unless oil touches \$57, or closes the week below \$58 (please see chart below).

CL1 **159.53** +.85 59.52/59.51 Comdty TAS
 At DELAYED Vol 95,901 Op 58.50 Hi 59.75 Lo 57.75 OpInt 241,585y
Stochastics for **CL1 Comdty** 1/11
 Range **10/ 4/00** - **9/29/06** Period **1** Weekly
 Upper Chart: **1** Bar Chart Moving Averages **200 200 1** News
 Stochastics **3** %K/%D Chart Periods: %K **14** %D **9** %RS **3** %DSS **3**



Australia 61 2 9777 8600 Brazil: 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 980410
 Hong Kong 852 2977 6000 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. : 212 318 2000 Copyright 2006 Bloomberg L.P.
 3777-264-6 04-Oct-06 15:40:37

PRECIOUS METALS & DOLLAR:

For trading positions, I turned bullish almost immediately after gold hit \$550 and turned bearish almost right at the countertrend peak “just under \$700”, as forecast. Thereafter, I turned bullish again at \$605, choosing not to wait to see if the metal would indeed revisit \$550.

Well, “more fully re-test” has occurred and it must be taken advantage of. At \$280, many didn’t believe. Then several occasions existed between that level and \$400. Then 500. And for all the opportunities, we did see \$700, and we will again, and \$800, and \$1000, and so on. I avoid discussing my long-term numbers because I find that that only distracts investors from what’s being projected for this cycle or the intermediate term.

Bottom line: 100% long gold. That’s always the case in the “bond” portfolio, but this is true for trading accounts now, as well.

Sid Klein

LEGAL NOTICE: This market letter is the work product and intellectual property of Mr. Sidney Klein. It arises out of his training and profession as an international expert on financial equities. It is a private correspondence from Mr. Klein to his subscribers. Any person who copies or otherwise disseminates this letter becomes subject to international criminal and/or civil prosecution under the Universal Copyright Convention and the Berne Convention for the Protection of Literary and Artistic Works. Nearly all countries in the world have signed both of these Conventions and have pledged to enforce them through their own legal systems. In addition, Interpol may be called upon to assist in the international enforcement of these Conventions through its processes of arrest and extradition. If you are the *recipient* of a copy of this market letter, whether through the internet or by facsimile, you should immediately report to Mr. Klein the name of the person or entity who sent it to you. Send your email to sidklein@sidklein.com.

DISCLAIMER: This market letter is intended to assist in the dissemination of information to private subscribers. The information contained herein represents Mr. Klein’s best efforts in good faith to advance knowledge to his clientele, but there can be no implied guarantee as to its accuracy or completeness. The information is given as of the date appearing on this market letter, and Mr. Klein assumes no obligation to update the information or advise on further developments relating to the information provided herein. No solicitation to buy or sell securities is intended, and none should be inferred. Investments are inherently risky, but investment risk itself is a function of individual preferences. Thus any opinions, recommendations, or judgments expressed in this market letter are of necessity abstract and general. They must be modified, accepted, or

rejected by individual subscriber/investors whose risk averseness cannot be known to Mr. Klein.