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CLOSE ENOUGH

(AT THE HEART OF A GUT)

Oct. 12, 2002

JAPAN:

Regarding both the ECONOMY and STOCKS sections, please refer to last week's in-depth report. For the short term, the Nikkei was expected to finally break 9,000, to only partially track the Dow's break of 8,000 (simply access the August 31 report, http://www.sidklein.com/comments/Aug%2031,%202002.doc). The Nikkei has lagged on the downside, reflecting its superior strength as it prepares to embark shortly on perhaps the greatest secular equities bull market of all time.

Dominance has been (for a quarter-century), and is, shifting from West to East. It is amazing how utterly ignorant the pedestrian Westerner is of this fact. Japan is the banker and exporter of Asia. It is no surprise to SKWC readers, then, that **Domestic Demand Oriented Value Stocks** (DDOVS) have not even fallen through this apparent market mayhem, with most such equities **STILL** not double or triple-bottomed with the early 2000 lows. SKWC reported then that **Domestic Demand Oriented Value Stocks** were the only place to invest (link to: http://www.sidklein.com/comments/PastComments.doc).

The sole economic notes added this week confirm previously reported material. Improved Industrial Production and shipments are being reflected in improving and turning deflationary indicators. In fact, September's decline in domestic wholesale prices was the lowest in over a year.

August numbers for private machinery orders' indicators support previously reported conclusions that these economic indicators are set to bottom, both in terms of long-term trend patterns, as well as cycles, during the first part of the next calendar year. This is still further evidence that the Nikkei's final all-time low is expected very shortly, following a rally that is "permitted" due to the abatement of foreign selling pressure that has been the cause of the recent Nikkei decline.

NEW YORK:

SHORT/INTERMEDIATE TERM:

On **August 25**, right at Dow peak near 9,000, SKWC wrote (the 3rd paragraph of this letter was not initially underlined):

*"Regarding the near term, the topping process is completing as the Dow now prepares to **CRASH**. An enormous spike downward, particularly for September, may commence at any time. The Dow could lose 30% fast!*

*"Last week, **SKWC** wrote: "Remember, **SKWC** has warned that inevitable economic and market CRASHES will bring out those who wish to divert the public's attention to matters of war."*

"The rollover into meltdown is free to commence at any time."

The following week, the letter's tone softened, looking for a collapse into 'only' the 6,000's for early October. Our comments have been more along the lines of a collapse being supported in the "upper 6,000's", which is why last week's letter hypothesized that we may be identifying another low real-time, yet again, this week. **Oct. 5th's** SKWC report wrote:

"Indeed, the way things are playing out, the upper 6,000's should support the market "in early October", now that the very guys who were bullish in 2000 are attempting heroism and warning of 6,000 in the Dow. As we've seen for almost 3 years, they come out of the woodwork to scare the public, right at short and intermediate term lows."

The Dow came within 3% of touching the "upper 6,000's" this week but bear in-mind that the index is in a secular bear market, with thousands of points yet to be lost over an extended period of time (many years). Simply, SKWC believed a week ago that the newly born bears looking for 6,000 would have their heads handed to them, as it appeared evident that only a minor 5-wave market decline remained. A reasonable measurement as to where 5 waves could take the market appeared to be anything under 7,000. 5 waves **did** in fact unfold (see daily or variable charts) before reversing to the upside 700 Dow points.

CYCLICAL BULL MARKET…NOW?

As regards the possibility of a protracted rally (cyclical, 12-18-month bull market) within a secular bear market, let us examine why it is possible:

It has been the oft-expressed view of SKWC that there would be no cyclical bull market until the Dow reached 6,000. The forecast assumed that the cyclical bull rally would be followed by a resumption of the secular bear. The prognosis was premised upon the notion that a cyclical bull would follow a 50% market CRASH.

Basis the S+P, the stock market <u>has</u> crashed 50%. The forecasted 90% decline in the "new economy" stocks has also occurred. Therefore, it is only in the narrower and easier to manipulate Dow Jones that the 50% decline not occurred. I must admit that that has no importance. <u>As well, too many came out of the woodwork to make headlines by forecasting Dow 5,000 (and lower), including analysts whose trade is the bond market</u>!

Bear in mind, too, that SKWC has cautioned bears of <u>2</u> key influences acting in favour of an approaching cyclical bull market:

It was pointed out that Japan achieved a major cyclical low just over 14,000 in 1992, rallying long and far in a cyclical bull market before resuming its secular bear trend. It is no coincidence that real estate peaked there in 1992. Real estate had ignored the first 2 years of Japan's equity bear market as cash sought "safe haven" (go figure). So, when real estate peaked, funds flowed back to stocks, temporarily. To understand that this is the stage at which the West now finds itself, please refer to **Oct. 5th's** real estate section.

SKWC has also been discussing in recent letters that the US November 2004 elections will soon figure into market cycles. We looked at the fact that the US market could rally for 12-18 months in advance of that event, while bearing in mind that markets have historically tended to be flat-to-down in the election year itself. Therefore, SKWC has argued, we are approaching a cyclical low. Since the inception of the bear market, SKWC's "spidey senses" have functioned with pinpoint accuracy with respect to pursuant turning points. Right at this moment, however, it is difficult to claim to possess any <u>*gut feelings*</u> regarding the next short or intermediate term Dow peak, except to say that there exists obvious resistance at 9,000.

What can be offered here is that any Dow rally should under perform the S+P. This can be achieved by key and thus-far outperforming names coming into line with the market. Remember, like the Nikkei - and unlike the capitalization weighted S+P - the Dow is a price weighted average. That is why the Dow and Nikkei have been frowned upon, as not being the best indicators of true market activity.

<u>THE BIG PICTURE</u>:

The financial press has been reporting that we are witnessing the worst bear market since 1938. Their reports could have been more reader-friendly had they focused on SKDF in January 2000 (second link above). We looked for an initial 50% decline in the Dow (which the S+P has so graciously since provided us). We looked for 90% declines in the new economy stocks, too. The "yuppie" generation know-it-all's couldn't believe that. Reeling, they still can't.

Regarding the underlined, re-printed paragraph above, please note recent letters that have warned that the public will be confused into believing that military events are related to the now patriotically excusable bear market. Polls do show that the American people believe that the collapse in stocks has occurred for several reasons that include Asia and the Middle East.

Meanwhile, approaching "war" is not getting in the way of any major rally. In fact, the US government will celebrate that the risks to the world have been or are being fully removed, thus not only rationalizing a major rally but also proving that the bear market has been due to military and political threats, factors that readers have long since and repeatedly been informed have nothing to do with stock market forecasting.

The best time for removing one's enemies is when doing so serves as a distraction from a bear market. It had become all too well-known that bear markets are rarely survived by governments. Distraction from a bear market is not only good strategy for maintaining political power domestically but it also allows for the furtherance of the greater "business plan" of the government. In consideration of the preceding 3 paragraphs, you are strongly encouraged to note the key commentary from last **November 19, 2001**:

"Financial, economic, political/military: It is an old market axiom that world events follow in this order. Someone who doesn't know or understand that isn't even a rookie trader, let alone a market historian. A stock market will fall (financial event) to discount an economic downturn (economic event). As crisis deepens, people turn to war (political event) to vent whatever has built up and re-ignite the economy, most of all. The Western bull market is the most manipulated and false in the history of the world, right down to stalling the Dow's bear market, even after the Nasdaq Crash. That was the real bear market as the public was invested most popularly there. The Nasdaq Crash, as I forecast in 2000, would be the death of the economic bull as that is what would hurt personal wealth the most. The SKDF forecast the peak of the Dow within 1 day in 2000 and subsequently likened its lengthy rolling over action to 1973-74. ***The delayed effect in market collapses has caused economic and financial events to "bump" into one another....the delays (or lags) being so great as to cause confluence with even the 3rd point in the sequence, political/military events. This is causing ordinary folks, and even politicians (not all, mostly Canadian), to truly believe that the unfolding stock and economic crashes are actually related to, and even caused by, the military and terrorist events. They are not!!!!! Having forecast a September crash, bin Laden rally toward 10,400 for November and ensuing calamity, be aware that any future crashes may also appear to be related to political/military/terrorist events. Be certain that these are coinciding events and that one would be prudent to plan one's financial strategies in a manner that does not wait to see if the world's political stage gets any brighter. Smart money should remain technical and not even look at it, except from the humanitarian point of view.***"

Leading up to the peak in 2000, SKDF wrote extensively of the greatest multi-year crash to come in New York, reporting often that the rollover was very similar in form to that of 1973-74, when the "nifty fifty" played the role (though to a lesser degree) of this era's "new economy (paradigm)" stocks. Since the onset of the Great Bear, commentaries such as the preceding paragraph have all but mapped out stock market, economic and political/military events for readers.

DOLLAR:

Last week's SKWC comments that follow did not mention the Swiss Franc, which is our perennial favourite as it most reflects true value and proximity to gold. Since 2001, it too rallied significantly, **25%** bottom-to-top. The re-print here is due to the fact that the currencies are performing precisely as forecast in these pages. If the big currency gains to which the following refers gives one pause, take a look at a long term (monthly) US Dollar chart. **Its CRASH hasn't even begun!!!**

"As gold (see next section) could pullback toward $305, this would be an ideal time frame for a rally (bounce?) in the US Dollar. The Euro bottomed 2 years ago, though many don't appear to be aware of that, based on their investment planning/allocations. From its lows, the Euro rallied **24%** (!) and, so, a correction from these levels toward .93 would be no big deal from a long-term perspective. Don't be surprised, however, if the foreign currency pullbacks such as those contemplated here never occur, as major trends tend to be virtually uni-dimensional once they take hold.

"Similarly, the other currencies with which these pages have been preoccupied, may partially retrace gains simultaneously. This includes the Yen whose potential is to, say, .80, only slightly lower than here. Even if it did occur, 84 could be seen first. Bottoming, however, is what it is doing. From its lows, the Yen's rally was also profitable (**17%**) and this coming (unfolding) buying opportunity will have occurred simultaneously to the final great buying opportunity in Japanese equities."

GOLD:

While I encourage reviewing the Oct. 5, 2002 special study on Japan, New York, the Dollar and gold, this week's letter has selected those excerpts that summarize what an investor may focus upon. With respect to gold, the following paragraph from **Oct. 5th's** letter encapsulates the investing story on the metal, particularly given this past week's activity:

"Now, we prepare for more buying opportunities as gold looks ready for another decline to the $305 area (the Philadelphia Gold and Silver Index has been weaker than gold, confirming the suspicions about the metal expressed here). If it occurs, that would be fantastic for long-term investors. We would surely visit the list of names put out Sep. 8th (for consideration only at appropriate gold level-related buy points). The base would be complete for a blast-off to over $350, the ultimate break of which will yield to dramatically higher levels, en route to $500 per ounce and beyond."

CONCLUSION:

It has been the author's pleasure to prepare you for the world's major market developments in Japanese and US stocks, the currencies and gold. It has been equally enjoyable to help investors and traders time their activities at key turning points, based on those preparations (forecasts). Regarding secular trends, only Japan (**DDOVS**, specifically) and gold are deemed positive.

While cyclical stock market rallies within secular bear markets (such as those that were experienced in Japan in the '90's), may be quite profitable for the experienced professional traders, they may prove equally hazardous for those that mistake "cheap" with "value". The fact that a stock is trading for a fraction of previously recorded prices, does not in and of itself suggest that it offers value.

It offers opportunity.

The reason behind the "cheapness" may be that the company, or the economy of which it is part, may be experiencing difficulty. True value will offer opportunity, as well. The reason that investors do not only stick to value – to answer a question one would be expected to reasonably ask – is that patience would often be a required virtue, where one's sense of timing is not excellent. While carrying greater short and longer-term risk, non-value (yet cheap) stocks offer more immediate sense-gratification.

The past 3 years has offered plenty of examples for study as to what happens to those attached to their senses.

Finally, all considerations notwithstanding, whether it is the Dow or gold or any market, intermediate and even cyclical (for that matter) term turning points can be swept away by the secular forces at play.

This is something about which to be humble.

Sid Klein

THE COMMENTS ABOVE ARE BASED ON DATA BELIEVED TO BE ACCURATE BUT NEITHER ACCURACY NOR COMPLETENESS CAN BE ASSURED. NO RECOMMENDATION TO PURCHASE OR SELL SECURITIES SHOULD BE INFERRED AND READERS ARE STRONGLY ADVISED TO CHECK WITH FINANCIAL COUNSEL AS TO THE APPROPRIATENESS OF ANY TRANSACTION FOR THEIR ACCOUNT. BARRING THE AUTHOR'S EXPRESSED PERMISSION, READERS ARE PROHIBITED FROM COPYING OR SHARING THIS LETTER BY EMAIL, FAX OR ANY OTHER MEANS.