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European Stocks Have Peaked; Dow Jones Top Before Final Blow-Off; Nikkei Peak, Shanghai Low; Bumpy Fork in Precious Metals' Road

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NEW YORK

SUMMARY

European equities have topped and will become very volatile this quarter; the unfolding smash will yield to a countertrend rally this spring, that will leave the Dow and other US equity indices alone in making globally unconfirmed peaks.

Meanwhile, therefore, the **Dow Jones** should get taken down to 12,300 or so by mid-May, before making final highs this summer, coincident with Europe's rally phase.

The **Nikkei** has peaked, just as the **Shanghai Composite** is putting in an important bottom. The latter's advance, along with Europe's countertrend rally (after this unfolding spring smash), will also be a "positive" aspect within the background against which the Dow's psychology of denial finds daily excuses for investors to delay panic.

Silver and **gold** have likely bottomed, except that a smash in equities *could* delay the resumption of the powerful bull market in the precious metals for about a month.

The **Yen's** bull market finally ended, though I remind all of the counterintuitive co-directionality of the Yen and the **Dollar.**

December 27, 2011

"At 4%, the bull scenario includes a reverse-shoulder-head-shoulder breakout and acceleration from levels just overhead (see charts) (12,400)**. The Dow would trade essentially flat around 13,000 through the year."**

To set the stage: At the same moment as the above analysis, I was facing the *apparent* contradiction of being extremely bullish on silver and the Nikkei. The March report (February 29) advised remaining short the Dow, but covering after a March correction.

Since the last letter, the Dow is 276 points higher, having basically gone nowhere. Given the time that has passed, even the longer term bear spreads are at loss levels that would not be recouped with a shallow decline, despite any expiration of short puts.

However, a Dow hit to 12,300 or so, could be another story, depending on what the investor actually selected for his/her option legs. {The silver call spreads (since exited) and Nikkei strategies were to have served as the other side of the market, as well.}

Still, we have a dilemma to deal with.

Yes, New York equity indices have screaming short-to-intermediate term divergences and sell signals. On the other hand, they also became so overbought that it would virtually be unprecedented for me to see New York resume its bear market in FULL force without developing larger divergences, which could take 3-5 months to develop.

For this reason, last month's report looked to cover on a March pullback.

In the end, we got the clichéd window dressing and global divergences (see below). Now, the Dow is set up for a fast hit to 12,800. But if it does stretch to 12,700, this would be most attention-worthy. Why?

I have been illustrating expanding triangles in equity indices in China, Europe and the US. A break of the most recent lows in the Dow, point #5 (see February 29, 2012 report), would suggest that a subsequent rally to point #6 should be shorted in anticipation of point #7, which is the violent spike to the final low in the sequence.

The repeated stretching out of these rallies (amazingly, expanding triangles had been forming within larger expanding triangles) has actually skewed the triangle interpretations, because of the looks taken on as a result of the extended x-axes (the effect of time on the patterns' configurations).

Now, if we use some (logical) artistic license and maintain the same interpretations as regards the expanding triangles (that are descriptions of **INCREASING VOLATILITY**), we come to appreciate that same analysis as applied to Shanghai (see SHANGHAI).

Therefore, a Dow break to 12,800 could complete a short term correction (at last), while a decline to 12,700 would suggest that a pursuant pop to ~13,000 should be shorted, in anticipation of a spike to 12,300...all in April, perhaps including May (the result of delaying the March decline). How to decide what to do at 12,800?

Shanghai has taken the lead lower, while Europe is now progressing in its negative sequence. That is followed by the Dow. It is a matter of simply waiting for a leading market to pass a key triangle point and then act accordingly when the next point comes up.

Example:

Shanghai has been smacked to form the forecasted spike lower to test but not break the previous lows. Now, the CAC (France) looks to soon break within its triangle. So, imagine if the Dow were to hit 12,800, we would assume that the CAC would follow-through with point #7 (spike lower), after a rally (point #6).

Simply, Shanghai will have led Europe and Europe will have led New York, where each one's triangle would proceed ahead of the other, suggesting that one need only observe the numeric sequences. As long as the order and sequence of markets and triangle points, respectively, continue as previously analyzed, then one can decide easily.

Going through the sequence of this reports' charts, this will become clearer.

Before proceeding thus, let us look at the basic global fundamentals.

Matters are worsening everywhere, even though the problems are distinct. And even though the problems are distinct, the "solutions" are the same: PRINT MONEY.

The Dow has been considered the best global index (even though it has been the Nikkei), presumably because the US economy has been the best. However, the quality of the "recovery" will be exposed with the coming two quarterly results, according to independent analysts and even multi-national investment banks, including SocGen.

Just a month ago, there was a US equity pullback because Bernanke said nothing of QE3, suggesting that there wouldn't be one. Now, there is the suggestion that there will be QE3. (Hmm, which banks' reports has he been reading?)

Last month, I inwardly suspected that one should buy Bernanke's non-support of QE, and then sell (short) its subsequent re-introduction!

It's all gonna get worse until bad news will be greeted with global implosion. I commented long ago that the markets have stopped leading the news, but have merely reacted simultaneously with the negative news or developments. This seems to have been the case for over a decade, or so.

So, the effect of printing and can-kicking will have been an implosion later in 2012 and 2013, that resembles a mud slide for a home...where the owner never saw the earth underneath the structure beginning to move.

But the earth has long since begun to move...and ALL nations will lose control at once. This report's conclusions are derived from this knowledge.

On the next page, the **S&P's 6-month chart** illustrates a MACD sell signal (again!) - a MACD that peaked at a level equating to Dow 11,600 half a year ago. (Now that's what I call market manipulation!)

The stochastic on the next page reflects a divergence and rollover to the downside, coinciding with a Dow failure to match the S&P's new high this past week.

February 29, 2012
"European equities: Long/short London or Germany versus France (simplest and easiest intra-European strategy)."

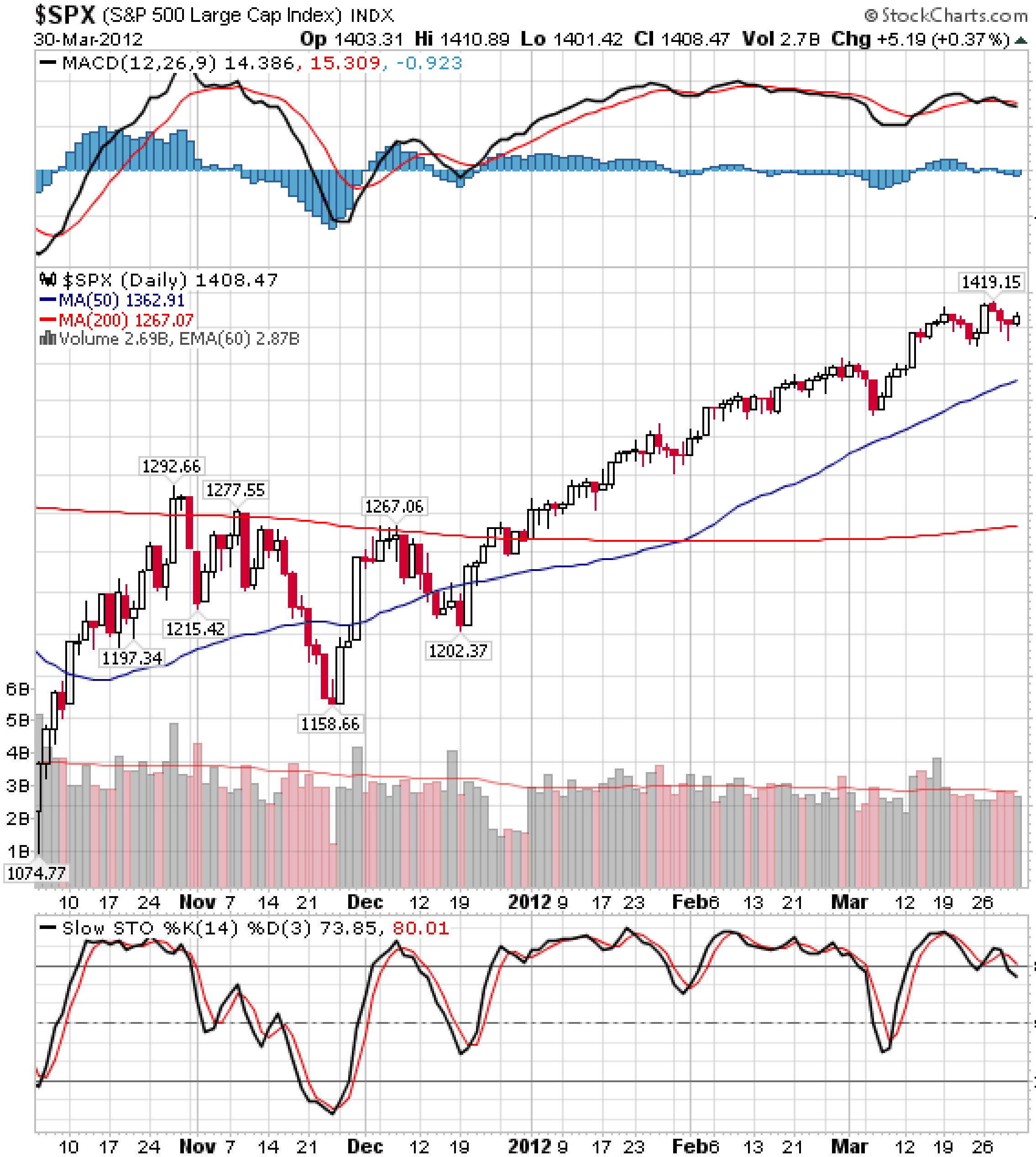
On **p.6,** please note the **1-year chart of the CAC 40 (France)**. This time, I simply illustrate a single and very large expanding triangle, the suggestion of which is that a break of 3350 would mark point #5. A rally back from there to ~3500 would be the point at which to short, in anticipation of the explosive collapse to form point #7.

Another way to understand the global sequence as I see it would be: The unending bad news out of Europe is ahead of New York, as the US is treated as safe haven for Westerners. Then, global contagion sets in, whether economic or financial, etc.

The Dow will have been the last to peak, as technical divergences set in during the time period when Europe will have been forming its right shoulder later this year.

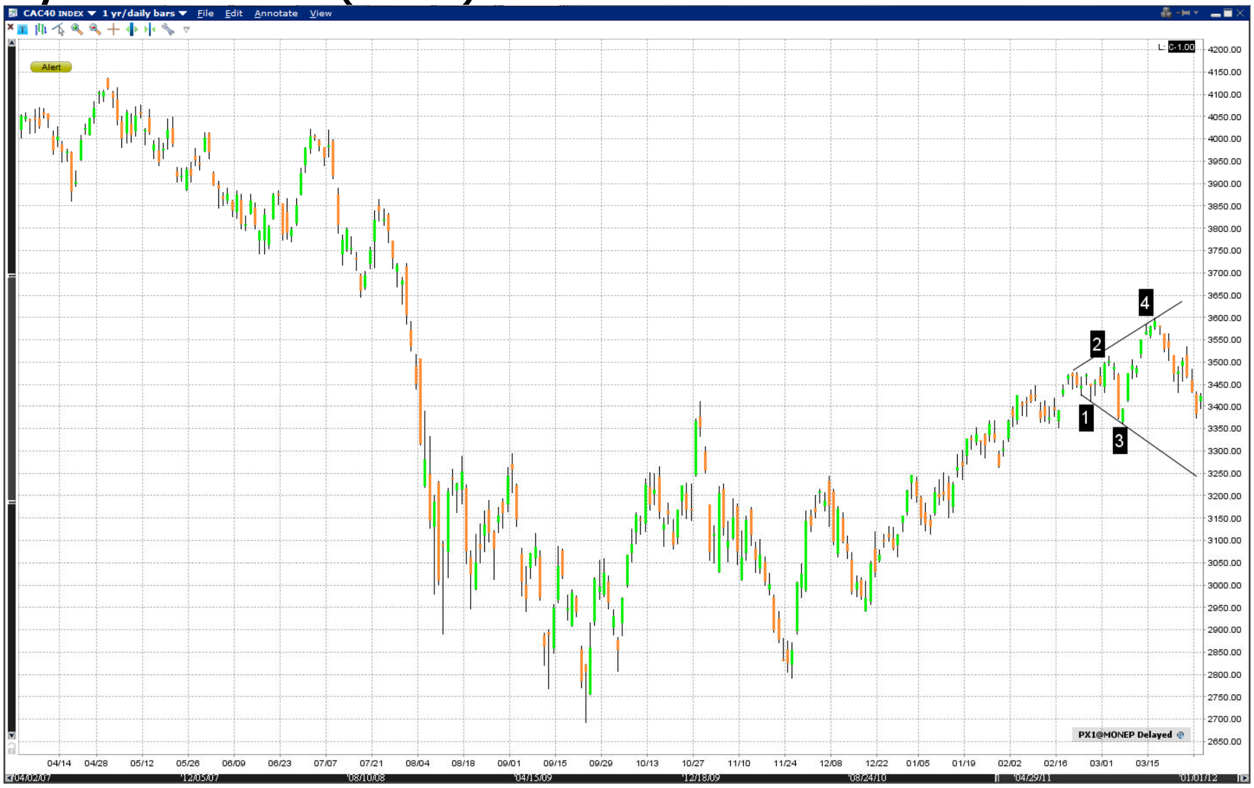
(In understanding and analysing the sequence of global index declines, as far as the Shanghai Composite goes in all of this, the latter is merely off-cycle, due to positive reasons.)

S&P 6-month chart

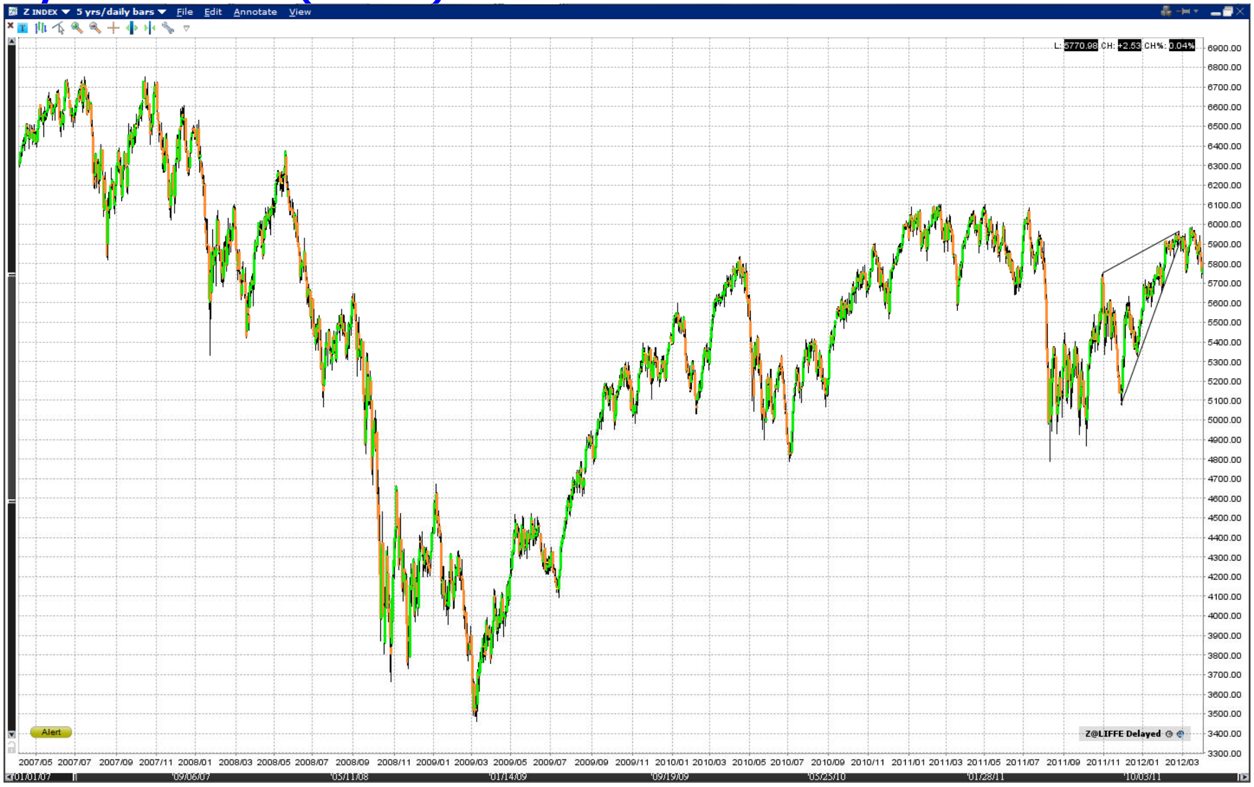


The analyses above is consistent with what occurred leading up to the Dow's previous major highs, as can be seen from the 5-year charts on pages 6 and 7, along with their respective (and dangerous) shoulder-head-shoulder formations.

1-year CAC-40 chart (France)



5-year FTSE chart (London)



5-year DAX chart (Germany)

5-year Dow Jones chart

When looking at these massive right shoulders and necklines, is it not rather obvious that all of this money printing will have merely delayed the inevitable calamity coming later this year and next?!

VIX

These reports have been illustrating a descending wedge pattern that developed over the past 6 months, noting that wedge patterns are quite reliable and that, in the case of the VIX, the implied sharp reversal would correspond to a falling US stock market.

While the countertrend relationship is not news, a less followed aspect is the condition of extreme contango in the VIX futures market.

However, since the Dow's rally above 13,200, and especially since its retest of it while the S&P was making new highs this past week, the premium in the VIX futures has taken a hit. But the premiums are still historically sharp!

CONCLUSION

February 29, 2012

"The Dow Jones should drop to ~12,450, before rallying to around 12,750, then followed by a decline to 12,200, or so."

My targets are little changed:

Whenever the Dow or S&P has made new highs, according to my experience, the other index confirmed the move before any correction. Therefore, in the very near term, the market should move higher, also relieving short term oversold conditions in Europe.

Thereafter, the Dow should decline to 12,700 or so, before rallying back to test the 13,000 area. That would likely be followed by a decline to 12,300 or so, thereby setting the stage for the alternate scenario reprinted from December 27, 2011 on page 2, whereby the Dow kills time in a range limited by, say, 13,400, heading into the US presidential elections.