

USD



November 20, 2009

As I have been going through the asset classes one-by-one through this cyclical turning point, we come to a point of review of the Dollar, particularly since it appears that yesterday's interim report correctly identified the summit for this short term move up in gold.

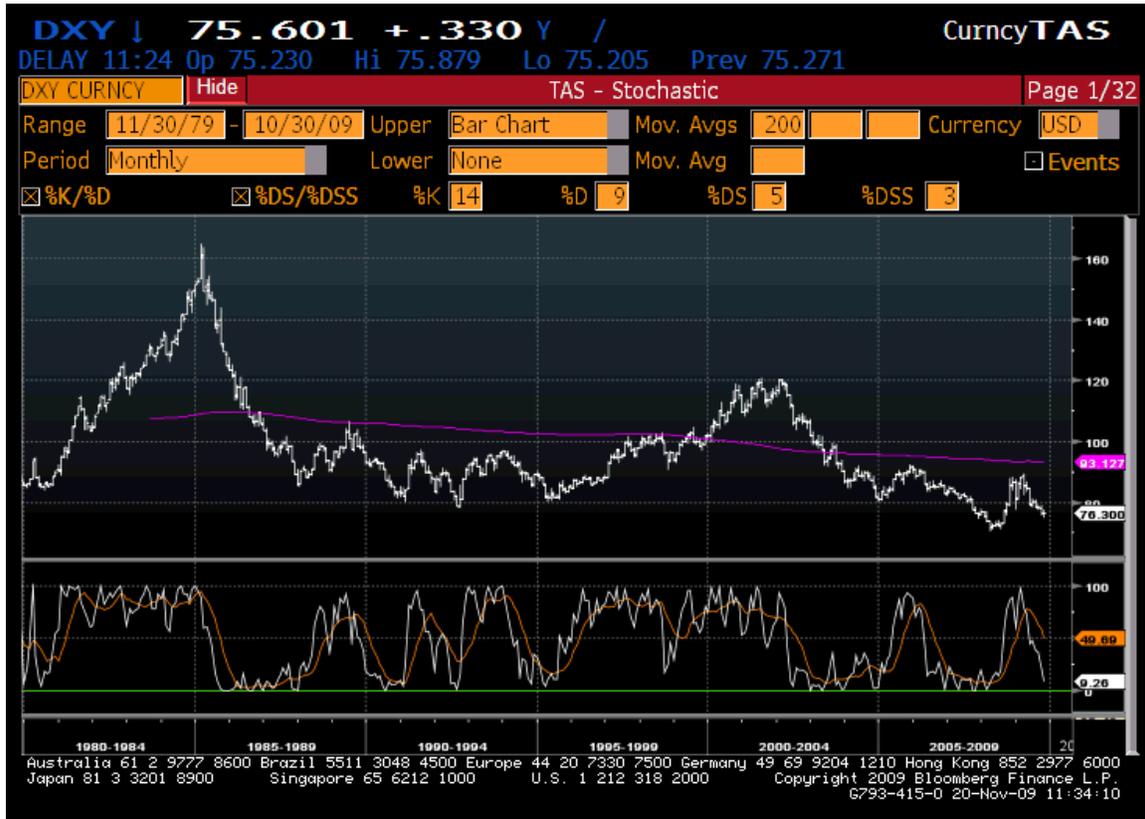
While the gold correction that was forecast was derived only by its internal indicators, one would ask, "What would the headline read, to explain the drop in gold?" Well, a Dollar rally would be the perfect backdrop.

The Dollar's correction is borne of internal indicators, in that, as part of a larger downtrend, the Dollar's **technicals** are bullishly divergent in both the weekly and daily stochastic (I'll revisit this later).

The background **financials** are that others around the world are taking hyper-inflationary measures, as a way of assuring that they are not left out of "the heist." That's all I'll comment on money printing, due to its political nature.

The bottom line is that it's really about other currencies taking a break from their bull markets.

Too many people had become Dollar bulls and mavens, relatively recently. A good market call tends to “linger” for a bit, before the market responds as expected. The multiple technical divergences suggest that disbelief or faithlessness in a sustained Dollar rally has seen its extreme, for this cycle.



Above, we have a **30-year** chart of the US Dollar (as measured by DXY). It illustrates the 2008 break to new 30-year lows, a level not seen elsewhere on this chart.

The following **20-year** chart (1st chart on page-3) reflects the Dollar’s peak this decade, right down to the 2008 low. One thing we can easily glean is why foreign investors were best served to be out of the US equity market after the Dow’s 2000 peak. The currency has taken a persistent drubbing since then, except for a break in the middle of the decade (coinciding with the Dow’s up-trend).

The sharp rally from the 2008 lows was a forerunner of the Dow’s success to be in 2009. The Dollar leads. Sometimes, or, for some time.

The 2nd picture on the next page is a weekly **10-year** chart, including the weekly stochastic at the bottom. Note the multiple bullish divergences. They certainly

signal that a rally is dead ahead, but cannot be trusted for measuring the ensuing *strength* of the rally. (The charts on page 4 are discussed on page 5.)





The 1st chart on the preceding page is a 5-year weekly graph. The multiple bullish divergences in the weekly stochastic are plainly evident. Furthermore, it is a triple-divergence, which tends to be quite reliable..

The 2nd graph on the preceding page is a 1-year daily chart. The stochastic here **also** has a bullish divergence.

STRATEGY

On the basis of all of the above, the broad-stroke target range for an intermediate term rally is 85 – 95, in 2010.

ASSET ALLOCATION

On the strength of the preceding, my asset allocation model is today altered to 50% gold (unchanged), with the Swiss Franc, Yen and USD now sharing the other 50% equally. (Previously, the DXY portion was evenly split, between the Swiss Franc and Yen.)

On principal (because of where we are in the Kondratieff Long Wave cycle), this is the maximum bullishness I would ever represent in the USD (via the DXY). The will of the US government is to strategically debase the Dollar, over the longer term.

And it is such discipline that, since 2002, has had SKGS' asset allocation (currency) model result in the highest level of risk-adjusted performance.

Sid Klein

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