JAPAN ASIA INVESTMENTS

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NEVER FIGHT THE FED!

(**PERFECTION**)

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NEW YORK:

We have forecast, and are perhaps identifying the lows in, this market real-time, yet again.

Apart from strongly encouraging you to re-read last week's comment, SKWC can only add that the universe, as described in these pages, is unfolding exactly as forecast right at the August highs. The decline "into the 6,000's for early October" is completing. At the summer's intermediate term peak, SKWC warned of potential to 6,000, though the view was immediately softened, looking for the "6,000's" for early this month (see Aug. 25 and follow-up letter(s)).

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.

In the stock market, cash (funds, etc.) is about half of what it normally is at major lows (and the Dow's decline will continue until a **secular** low is made, so imagine what the cash levels will be then!). Couple that with the fact the index funds are not anywhere close to being unwound. The public is heavily involved in these funds and one would be wise to bear in mind the 13-year process in Japan with respect to the unwinding of crossholdings. The underlying assets and the reasons for their existence have nothing in common. That is so. Still, one may focus on the time it takes to unwind an investment entanglement of systemic proportions. One may also note the effect such unwinding takes on prices!

To understand North America's coming deflation is to understand Japan's decade-long debacle that was founded upon the collapse of real estate and the unwinding of leverage connected to it. Therefore, note the following sub-section.

REAL ESTATE**:**

As for the secular and cyclical trends in the stock market, the leverage in real estate has not even begun to be unwound and its effects on the stock market are therefore still resting, pregnant within the nightmares of unsuspecting bankers. Forget stocks. Can the public meet its home payments? Ah, and then there are, of course, the home equity loans sold to the public. The memory of the financial products of our time will burn in infamy in the minds of investors, along with that of the greedy (investment) bankers who fleeced them.

Previous letters have written of the coming collapse in real estate that has been a beneficiary of capital seeking “safe haven” during the initial bear market collapse. Now, as folks suffer difficulties with respect to home payments, banks must now prepare for a lengthy demise into financial abyss. In Japan, too, there was an initial 2-year lag between the collapse in stocks and real estate (1990-92).

As US banks are brought to their knees, the vantage point from which to view their Japanese counterparts will be somewhat less haughty. In fact, the West is beginning what the Japanese are finishing. This is creating a psychology whereby the Westerners cannot see clearly the brighter shades of green on the “other side”. Green, by the way, means money and the Japanese seem to me to have most of it.

Our Canadian banks are not immune either; no, not at all. Has anyone noticed the yields of our big bank stocks? The market isn’t stupid; that particular intellectual quality belongs to the forecasters who can’t get their “paradigms” right. Remember the “new paradigm”? The financial media always looks good, though. They just alter whom they quote.

For our part, you have been reading the correct Kondratieff/Elliott Wave interpretations since 1983 (see **June 30** and July 6 comments, with particular emphasis given to the former by serious market investors)! If you’ve been a follower of SKDF/SKWC commentaries through the years, you have been in the correct investment classes.

Sid Klein