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Key Extremes

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JAPAN

Japan is the only other asset class I deem appropriate for the long side of long/short trades in 2012, along with the precious metals and their equities, when appropriate.

As described weeks ago, the extremes of the Japanese market (based on the past quarter-century) tend to be the end of December, or, alternatively, at a price often not much different, mid-to-late March.

The best risk/reward route longer term is the use of small and mid-cap Japanese stocks. The rebuilding of Japan will occur domestically and, as history will hopefully write, "The Japanese used an unforeseen natural calamity as the source to a plan that took the country out of its quarter-century deflation."

Due to the severity of what I foresee for next year in the global markets, for official purposes, my bullishness should only be taken as part of a long short portfolio, or where it represents a portion designated for equities, which should already be a well discounted number.

With small stocks outperforming in the US in 2012, as well, we certainly see, longer term, small and mid-cap stocks as the best route toward optimization of any Japan-related strategy.

Once again: The best time to buy or sell Japan is at our yearend or, less often, theirs, in March. Historically, if and when March exceeds the previous level, it can be marginal break or, as is often the case, a failed attempt at a new high or new low.

This is my lead index right now for ANY global long/short trade. This trade (i.e. – Nikkei–Dow), put on today, will yield extremely high risk-adjusted returns through 2012. This trade is recommended at today's prices.

CHINA

The Shanghai index is in a serious and ongoing decline, the worst of which will be over by their New Year.

Chinese market woes range from property leverage in certain areas, to slowing growth. Of course, I have been to Asia to experience what Westerners call deflating or depressed or slowing. Our circumstances have rarely been as lively.

However, everything is relative and the Shanghai's malaise speaks of Asian and global weakening. There will be great demand in one area, but that's Japan's domestic domain, as discussed above.

The Shanghai index is a long/short candidate versus Western markets later, particularly as 2012 enjoys a newly begun cycle of lower rates. (Chinese monetary policy shifted the night before New York exploded 500 points.)

ASSET ALLOCATION

As a percent of all liquid wealth, the best overall mix remains:

50% gold
25% Swiss Franc
25% Dollar

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