Sid Klein Global Strategy
1001 BOUL. DE MAISONNEUVE O., BUREAU 950, MONTREAL, CANADA H3A 3C8
TEL: (514) 939-2221 FAX: (309) 417-0942
e-mail: sidklein@sidklein.com
www.sidklein.com

Nikkei, Dow, Gold
Right, Wrong, Right

April 3, 2011

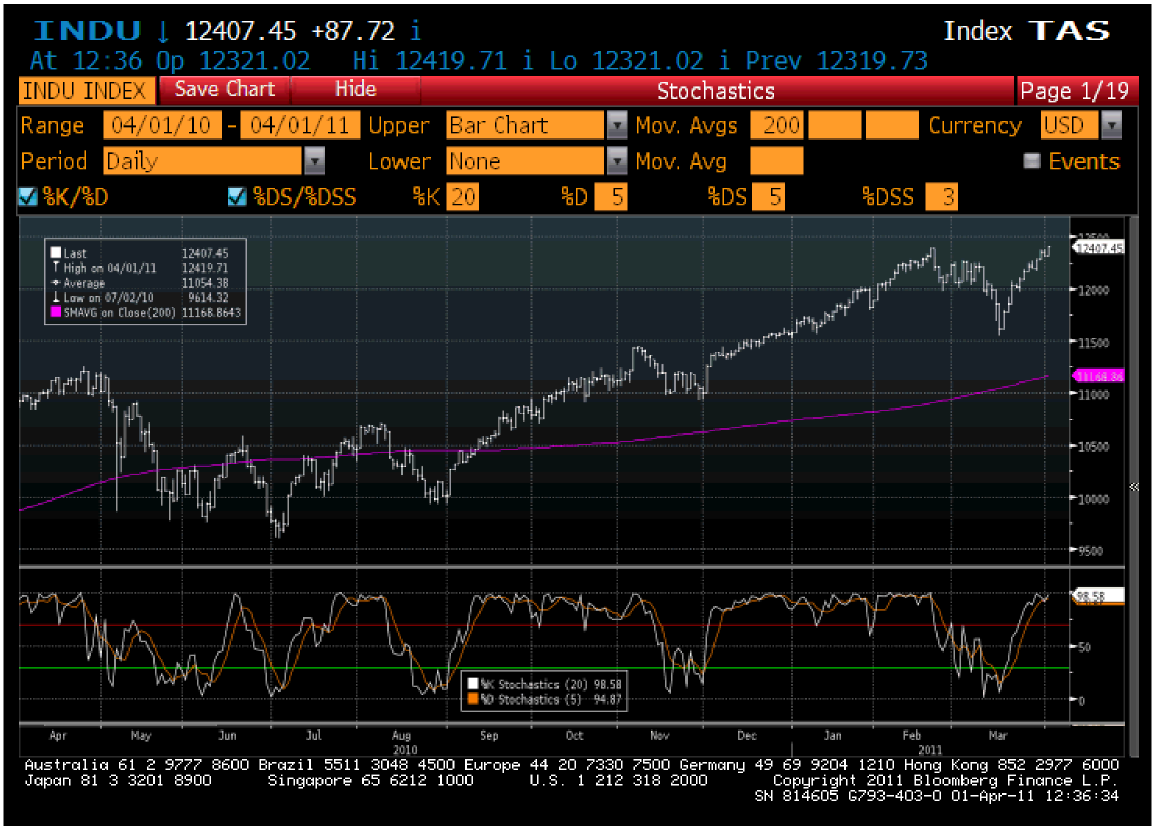
DOW

On March 15, 2011 I warned of the similarities of the Dow's pattern over the past quarter with the period immediately preceding the 1987 Crash.

There were bullish divergences at the Dow's recent low, however, which I chose to ignore, as the oscillators on October 16, 1987 were oversold without precedent.

At the time, I argued that that was normal if there was a tidal shift in trends, and the Crash on the 19th - 20th bore out that analysis. This time, month-end was influenced upward to mask any long term effect that is increasingly becoming a concern resulting from the need for the Japanese to repatriate assets (see YEN).

1-year daily Dow chart



Just as there was a bullish divergence at the recent lows, there is a negative divergence in the stochastic today. This is not evident in the chart above, since the latter was inserted earlier in the day on Friday, before the 30-point setback from the level above.

Of course, it is but a single divergence, yet it is a potentially dangerous one, with New York's 1st-quarter and Japan's yearend now a matter of history.

With the psychological shock suffered by the Japanese populace, what of the collapse in the US consumers' confidence (as measured by the Michigan survey)?

The former may not dampen the stock market there (see YEN), but the effects of a worsening economy in the US may be allowed to affect the Dow Jones with a healthy "correction", since the latter could be blamed on those same factors that the media will associate with the coming retest in the Japanese equity indices.

VIX

February 6, 2011:

"The technical conclusion is that there will be a spike to the 25 - 30 zone, which I believe corresponds to a spike in the Dow to the 10,000 level. Fast when it comes. By the end of April."

1-year VIX chart

From the end of January through mid-March, the VIX made progressively higher highs that were unconfirmed by the stochastic, as we see in the chart above.

So, the February forecast was bang-on, but its value was not for the longer term traders. Still, the divergence was the ever-dangerous sort: a triple divergence.

At today's close, the VIX diverged bullishly, due to a full point reversal (up) that does not appear on the chart above, which was also taken earlier during the day.

A recovery to the 20-level should occur quickly with a mere drop in the Dow to 12,100. For those using VIX options as part of their global portfolio approach for managing bearish portfolio strategies and volatility, this is worth noting!

ASSET ALLOCATION

The breakdown remains:

50% gold
25% Swiss Franc
25% US Dollar

Sid Klein