The Sid Klein Comment
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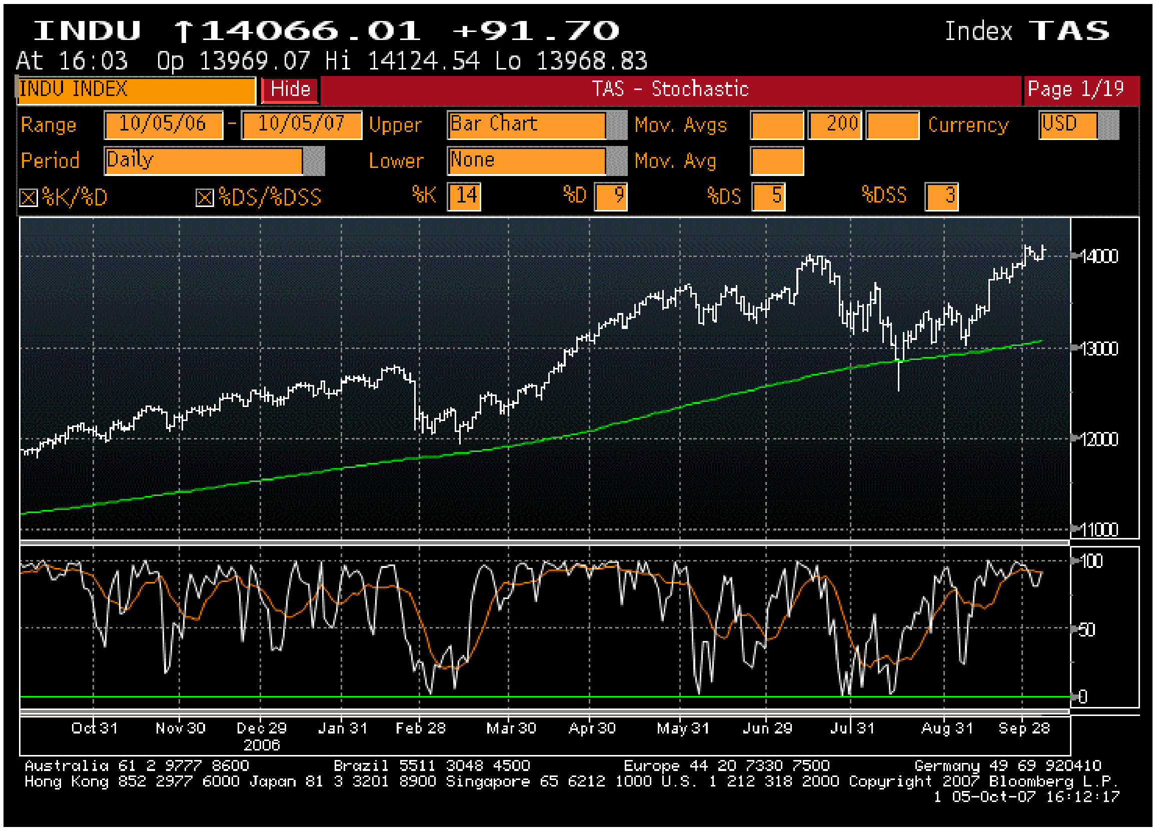
Nikkei: Perfect
Gold/Silver: Perfect
Yen: Perfect
Dow: Minor New High Achieved

October 07, 2007

NEW YORK

Dow Jones:

See page 2.

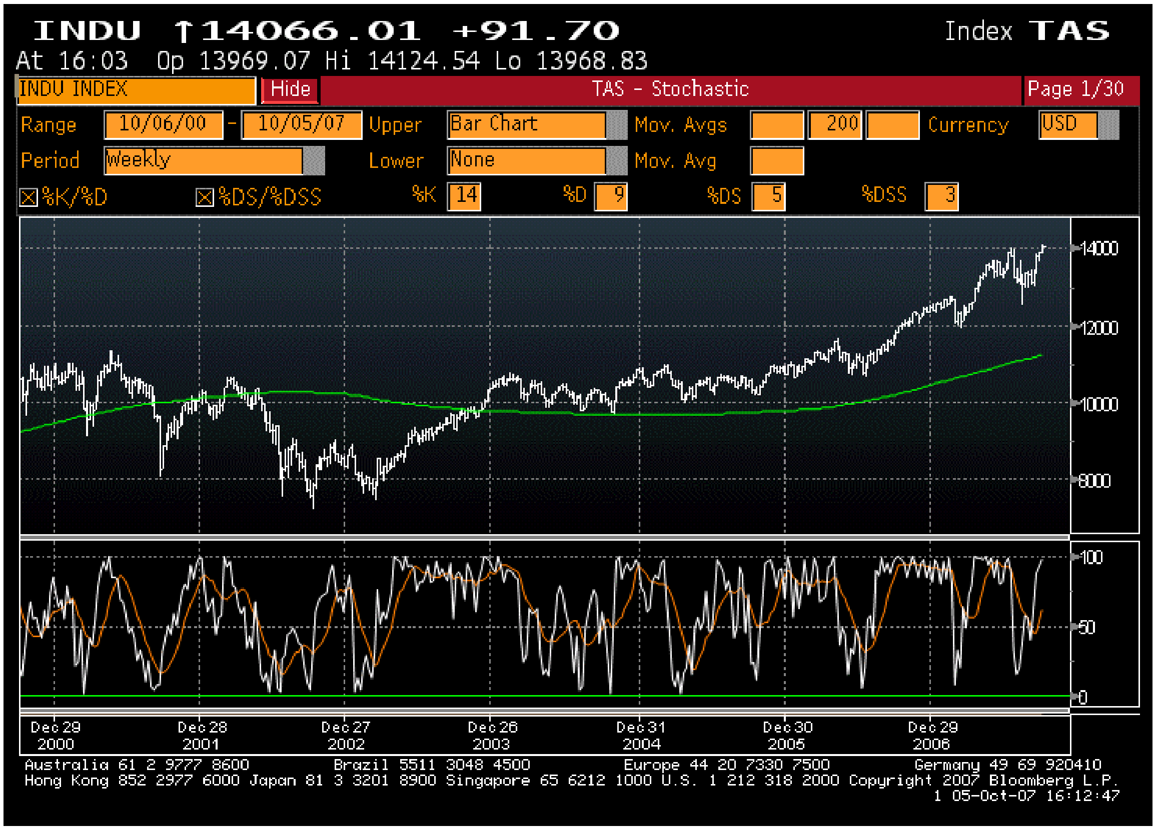


The 200-day moving average at the bottom of the daily Dow chart immediately above provided support to New York, as the Fed's ½-point cut was further celebrated with the announcement that the Koreas may be presenting something bullish to think about, on the otherwise dismal political landscape.

The Fed cut may have an effect longer term in terms of mitigating the future damage that is resultant of a recession, which the Fed may be worrying about and foreseeing. It does not prevent the other shoe from dropping in the intermediate term, however. The momentum of prior actions and circumstances must run their course.

The same daily stochastic above illustrates a bearish divergence, should the Dow decline from here (and it is turning over). As regards the 7-year weekly chart, and its stochastic at that chart's bottom, below, wave 1 may be said to have bottomed in early 2003, while wave 2 completed its correction during the 4th quarter of 2004.

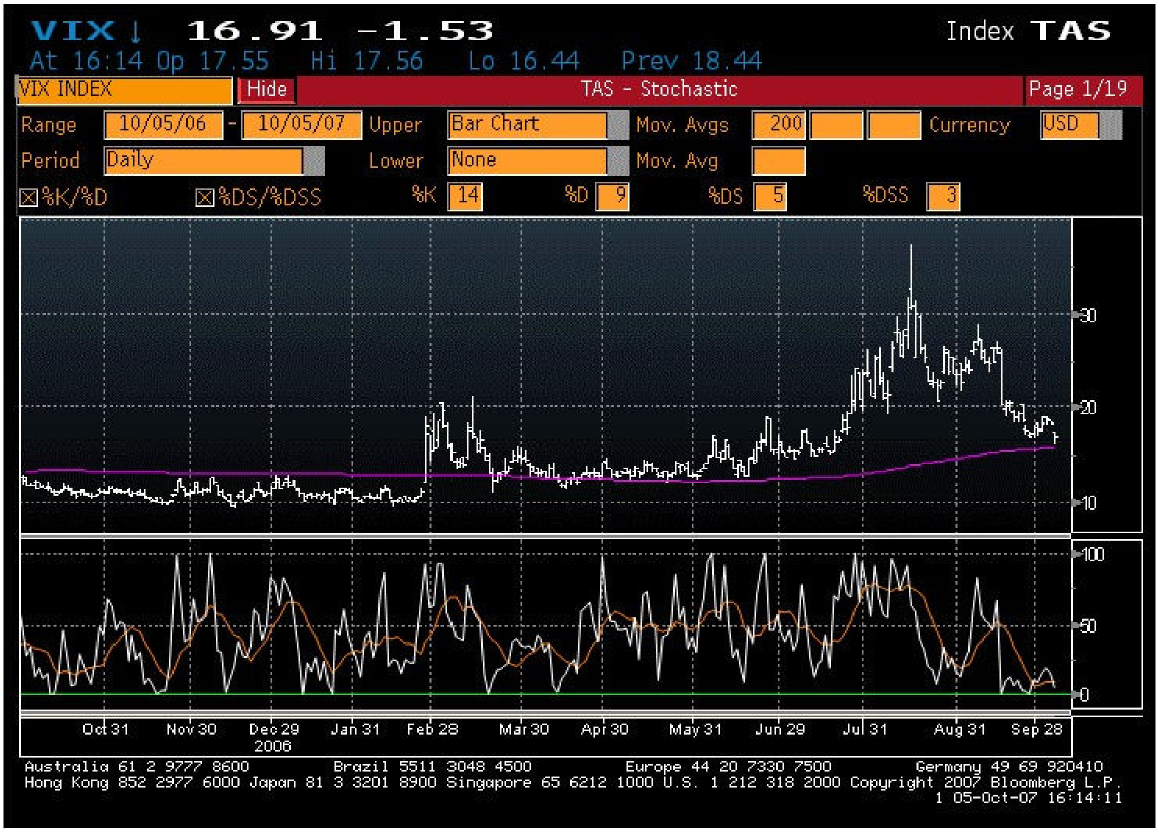
In this scenario, wave 3 peaked just before the 4th wave's 10% correction, which concluded most recently. We would be in wave 5 to conclude the entire move now. As regards the weekly stochastic, it is over-bought, without any divergence. Non-divergence is the norm with weekly stochastic, as opposed to dailies.



When all is said and done, rate cuts, sub-prime stories et al, will not have mattered much, as compared to the resumption of the Yen's bull market. When the Japanese spigot is turned off, the flow of capital will bottleneck and choke the New York market's capital addiction, until wheezing breathlessly. Cutting rates hardly improves the carry-trade story.

The media focus is not on all this, because the background news for the Dow's recent 10% decline was on everything but the Yen as cause, except in these reports (I think).

Analysis and comments on the following VIX (volatility index) charts appear on page 7.


VIX ↓ 16.91 -1.53
Index TAS
At 16:14 Op 17.55 Hi 17.56 Lo 16.44 Prev 18.44
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TAS - Stochastic
Page 1/19
Range 10/05/06 - 10/05/07 Upper Bar Chart Mov. Avgs 200 Currency USD
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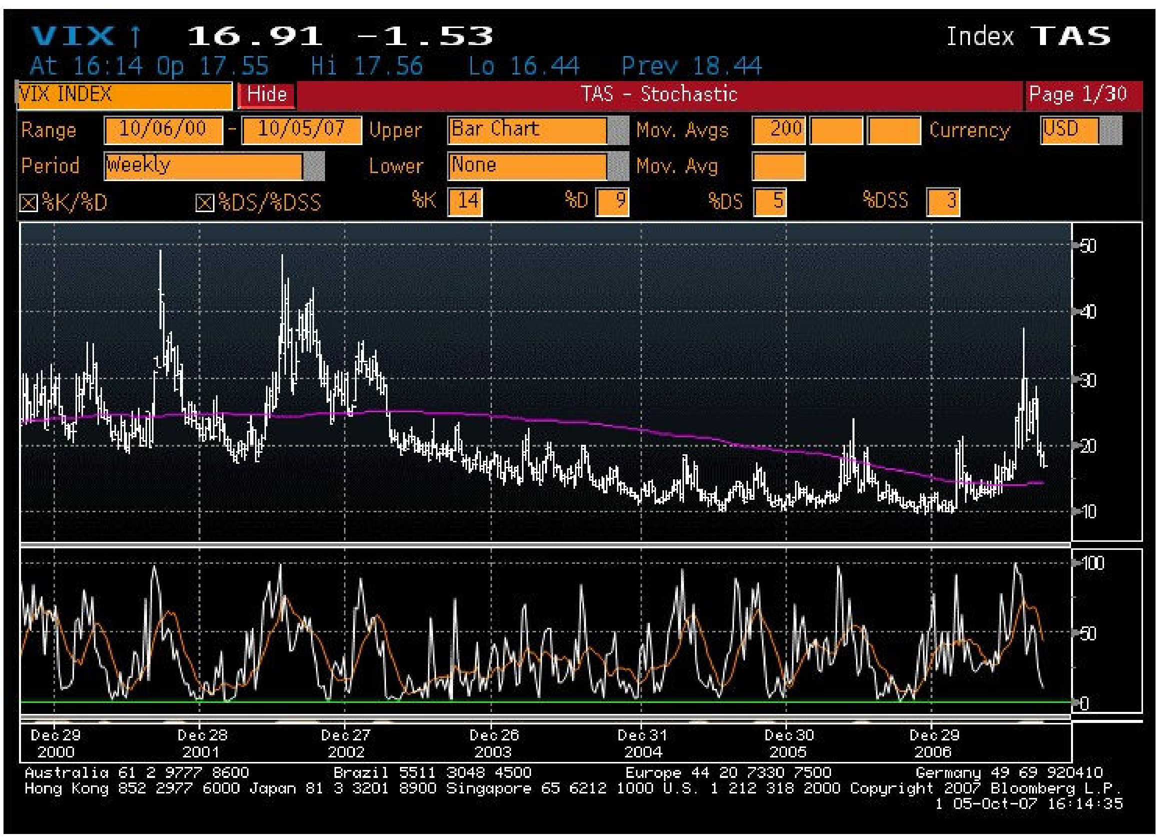
VIX ↑ 16.91 -1.53
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The 1-year daily VIX chart, which is the first of the 2 charts on the preceding page, illustrates:

- **major long-term support**
- **perfect support at the 200-day moving average**
- **a completed 3-wave a-b-c pattern down**
- **a bullish stochastic divergence, should the market advance from here**
- **a long-term up-trend channel**

The 7-year weekly chart and stochastic immediately above illustrates:

- **an oversold condition**
- **long-term support**
- **a pullback after a breakout, which corrected toward but did not break the 200-week moving average**

I have observed that recent tops have been marked by the VIX turning up, rather than continue to fall, during a move up in the market. I am referring to a 200-point move up in the Dow that is coupled with a turn up in the VIX, as opposed to a continued decline, as a realistic example (and which just occurred). There are obvious reasons to find, but the observation is just that. And, indeed, should the market decline from here this phenomena would have occurred again.

<u>Conclusion and strategy</u>:

Amid negative divergences and questionable economic fundamentals, the volatility is set to resume, with a resumption of the Yen's bull market. The 4th quarter may yet turn ugly. Either way, risk is defined and limited, since no stocks are held, and within an asset allocation model that is heavily weighted to our other markets and asset classes.

The Dow's pattern allows for a downside reversal to occur at any time, and the VIX background is entirely supportive of such a scenario.

Happy Thanksgiving, Canada,

Sid Klein

who sent it to you. Send your email to sidklein@sidklein.com.

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