

Shanghai, Nikkei, Dow Jones, Precious Metals Explosions in 2009



December 7, 2008

NEW YORK

The Fed's reserves has jumped from \$7 billion to \$500 billion, with a promise to issue \$2 trillion in bonds, including 30 year paper...at the lowest rate levels in 50 years. One theory is that since the Fed won't call back bank debt (suicidal); having rammed these bonds onto the market, the banks will lend like it's nobody's business to stimulate the economy and skyrocket the economy. Consistent with this, consider this piece from today's New York Times:

"...Obama promised Saturday to create the largest public works construction program since the inception of the interstate highway system a half century ago as he seeks to put together a plan to resuscitate the reeling economy."

The hedge funds will be caught and, again, screwed.

Just a theory because with oil having collapsed and exports to the US off the cliff, the Chinese who have been the great money recyclers (by buying US toilet paper) could always say, "The heck with it." But, then again, they also have their own stimulus package going and the Shanghai index to manipulate for their own accounts. Strange bedfellows and a weird world.

Besides, I just don't feel that it's time for anything that confrontational. It will become my then-ignored rhetoric at a pre-collapse peak. Later. 2010 will be hell and damnation.

Guesswork scenarios and market sci-fi market speculation with a basis in the real aside, what we know is that unemployment in the US has been rising for 11 months and has risen to 6.7%. So, rates are cheap, with the above part of the scenario where money pours into the economy. After the new US king is inaugurated, the customary 1st-year feel-good will rocket the market, as the debacle occurred when there was no one to blame, as so long-since forecast. The bandits have secured their loot and the anti-Christ wasn't even in his country lately while the economy was getting creamed. Not bad for a guy who never traveled out of the Empire until he was elected.

In all this, ask yourself: "Okay, if I got trounced during 2008, do I want to punish myself by not being long in 2009, and should I just wait until the cyclical rally is over before the next collapse (to go short), or do I want to make money now and then secure the future by getting geometric thereafter on the way down?"

Readers were long nothing in the US in 2008 and are secure now so, does one want to call it quits altogether today? That is an option, you know. After all, what is winning before they take the stage away for good all about anyway? Otherwise, act now!

This month gives voice to a lot of rhetorical and theoretical questions, so that the food for thought may offer fresh inspiration. We are entering yet another year of thrilling global hedge opportunities and, again, yearend marks the date for establishing those positions.

Thereafter, there is little to do except let the market print money for you...again. Hence the prodding to question oneself. Because alertness is needed...and I want to find new and creative ways for waking up the managers who hibernate when they need to be most attentive and ready to establish positions: Christmas – New Year's time.

Asset and fund managers tend to get wrapped up in business considerations to such a degree that they forget the main event that brought them to the arena: investment and its proper timing. Don't let this year be the same for you again.

Page 7 contains 10-year weekly and 2-year daily charts of the Dow. Please note the daily Dow chart in conjunction with the daily VIX chart with its related commentary.



The November 9 report suggested that the Dow may have bottomed.

Please scroll down.



2009 SYNTHETIC (HEDGE) OUTPERFORMANCE:

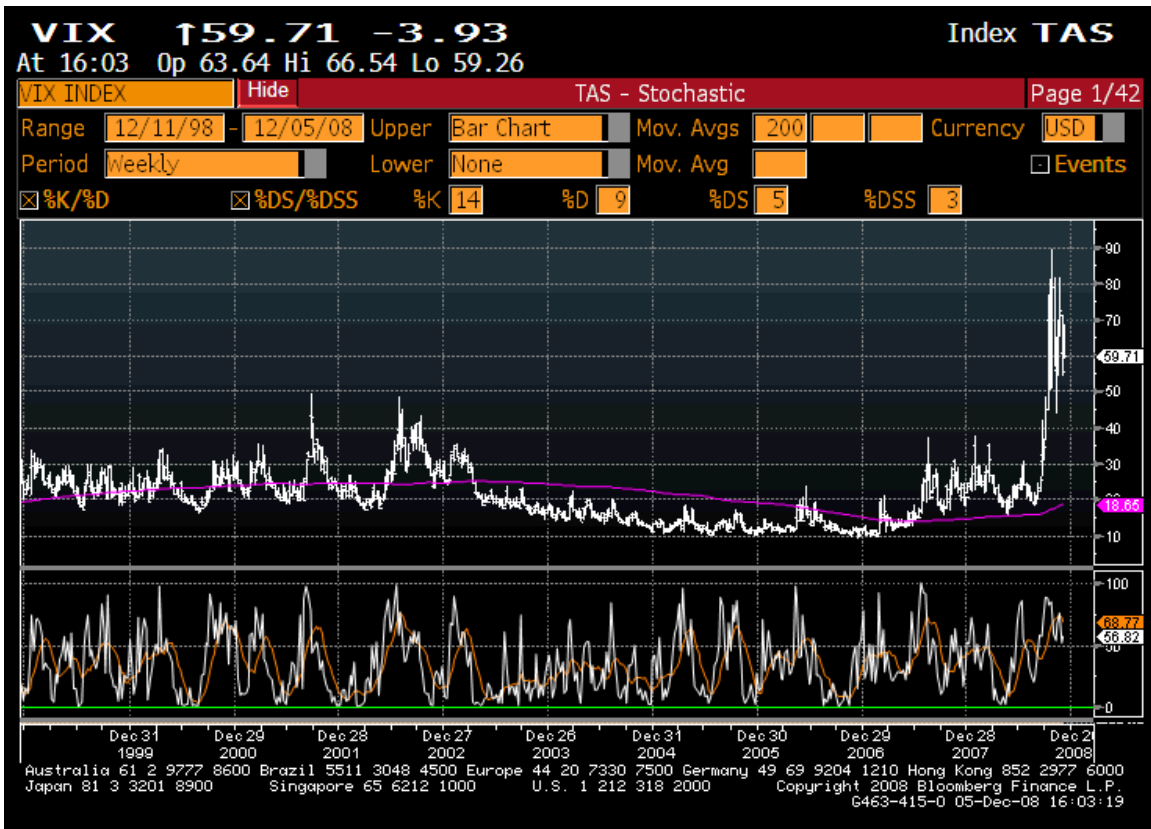
At the same time, this annual warning is both more and less specific than in the past: As the calendar turns, there will be swift 7% - 10% upward corrections from the deeply undervalued levels of specific hedge (outperformance) opportunities. The price changes in the related synthetic products will be greater by some multiple, obviously, regardless their long-dated nature.

VIX

The 10-year VIX chart immediately below illustrates the spike to 90 and how, in that context, our catching a short sale at 75 reflected superb vision, with a target in the 30's. The target will surely be realized.

Along with silver, I promised you the possibility of one of the easier trades and profits of this late 2008 – early 2009 period.

The 2-year daily VIX chart that follows it on page 9 shows us how the VIX made a lower high, even as the DOW made a lower low, a phenomenon I once explained as being a divergence that was a good sign that a reversal was at hand, according to my way of thinking and past observations.



ASSET ALLOCATION

There is no change from the November 9, 2008 monthly report.

Sid Klein

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