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The Silencer: Final Dow Rally Tests 14000? Precious Metals In-Gear Now



August 5, 2012

NEW YORK

Regardless the asset class or market, the comments and findings in this report are based on the following conclusions:

The prevailing view in the market is that Mario Draghi disappointed markets this past week by not coming through with the "bazooka" monetary policy that he had promised the week before.

This view is incorrect. He DID come through. In fact, so much were his words and actions a game changing event, that this critical turning point is underscored by the fact that the marketplace didn't notice that it even happened. THAT'S contrarianism 101X.

Mr. Draghi reiterated his readiness to provide the requisite liquidity to the market, IF he was asked for it. There are those who said that this was nothing new since the markets had already heard that he stood ready to provide said liquidity if conditions worsened.

However, in its disappointment over the absence of a bazooka, the marketplace missed a bigger bullet that was fired with a silencer.

He merely said that a few weeks would be necessary for the sought-for bullet, enough time for the Spaniards (and then Italians) to compromise with their former WW2 allies and ask for the funds that they require at the same time.

Then, EVERYONE will be on board the love train to the printing presses, without the silencer of if-clauses.

Moreover, he added that he would manipulate the shorter term bond market, so as to bring in the spreads between Spanish and German yields. For this month, the Spaniards do not need to issue debt but, once August passes, they will ask Mario to come through as promised.

The passage of the next few weeks also gets everyone closer to the German high court ruling regarding the legality of new debt issuance, and the opportunity for European compromise will have then occurred when most affordable, while still holding the Spaniards' feet to the too-close fire nonetheless.

This not yet recognized game-changer by the public will become evident by the end of the month, I suspect; Mario Draghi's political skating ability will have become evident.

The Obama indicator: Barrack Obama is a very smart man and he would not publicize his involvement in "influencing" Europeans to get their house in order, unless he knew that he held the winning hand.

He has spoken openly about it, sent his representative to deal with the matter and, in doing all of this, he has made himself vulnerable to looking like a "commander-in-chief" without teeth who does not command respect - and in an election year, no less.

Forget it. He would never make that mistake. And, by the way, he did the same thing last year RIGHT AT THE LOWS OF THE MARKET. The global accords are all but in place.

Therefore, this report explores the best case scenario for equity markets, as well as the inevitable explosion in precious metals, since the latter are the principal beneficiaries; those bull markets have years to run, after all. Meanwhile, the Dow has but a final rally left to run, as described in the most recent reports.

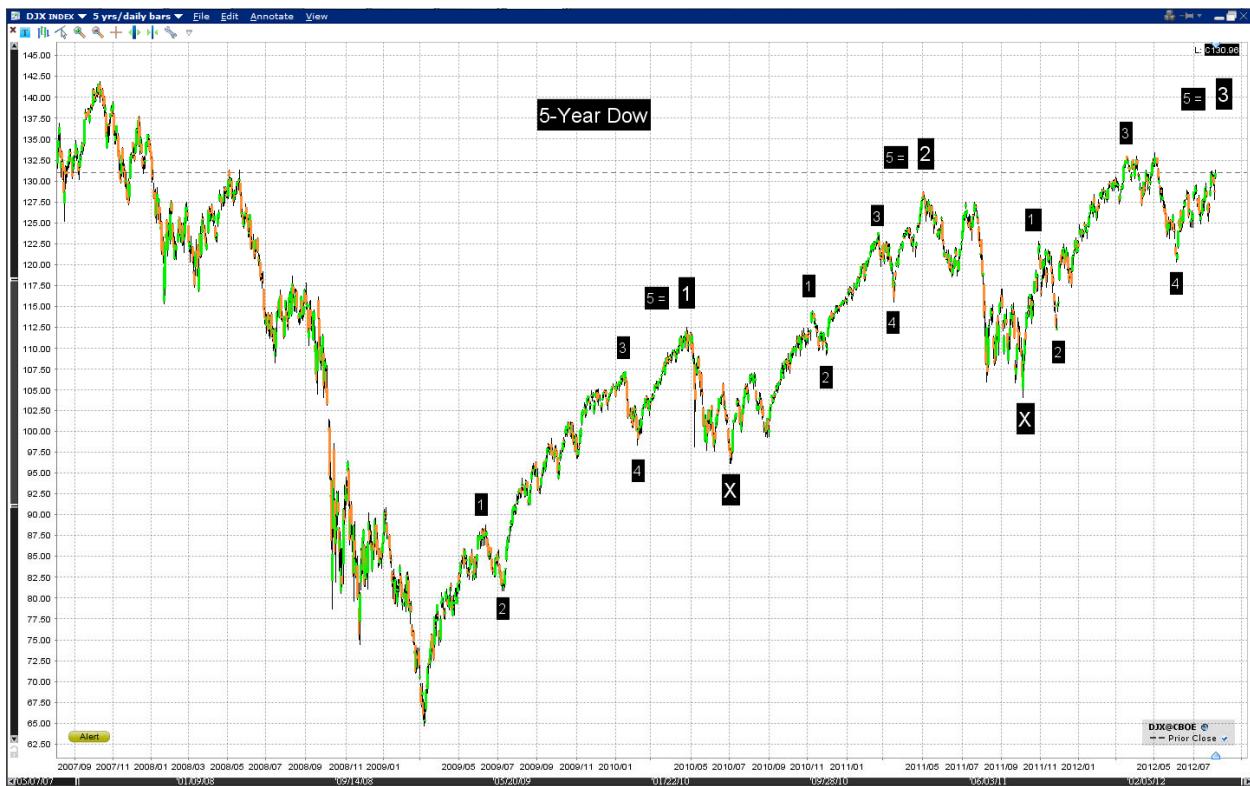
The logic is simple: Everyone knows that the printing will only have delayed the inevitable collapse of equity prices, since the real economy can only be hindered longer term by these reckless monetary policies. Therefore, such a rally will be used to sell into by the major players.

The following **5-year chart of the Dow Jones** labels the 3 major moves up since the 2009 low. Each move is subdivided by 5 waves, as indicated below. To emulate the previous two moves, there would need to be a final thrust higher into the end of the 4th quarter to complete the 3rd wave.

NOTE: *The labeling below does not reflect the rules of the Elliott Wave and is merely intended to illustrate the pattern since 2009 and how this move would end if consistent.*

The result would be an assault on the ALL-TIME HIGHS of 14,000, which would lull investors to sleep, adding voice to typical expectations for a yearend rally. The latter will go from presumably typical, to shockingly mythical and wealth-devastating.

If this plays out, the marketplace will look back upon Mario Draghi's words and actions of this past week as having been a game-changer, after all.



Fundamentally, to help with election years, it is good to delay good news to cause the most recent memories of voters to be the best ones.

Sparking Friday's market eruption, the change in non-farm payrolls was expected to come in at 100,000, before surprising the market at 163,000. Note that the recent period came in at 80,000, before being revised lower to 64,000.

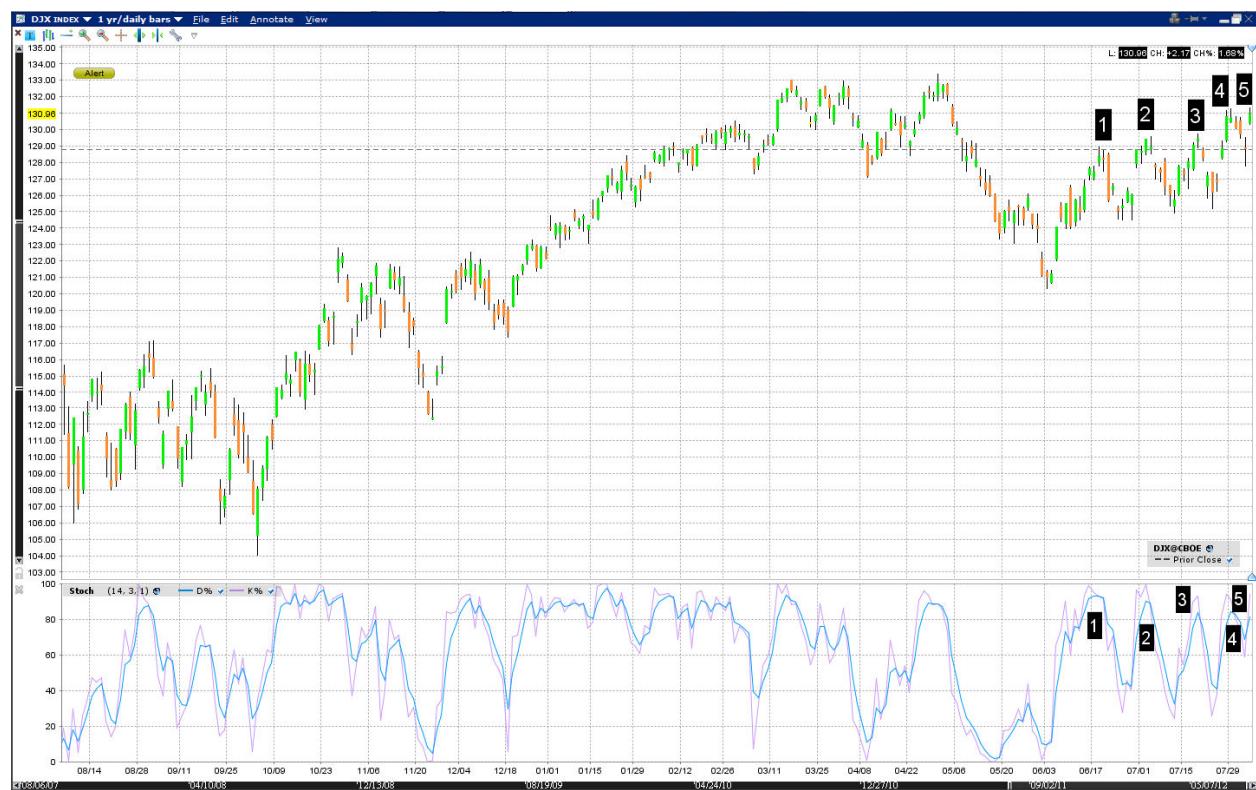
The change in private payrolls were expected to be 110,000, before being announced at 172,000. However, while the most recent period came in at 84,000, it too was revised to 73,000.

The change in manufacturing payrolls was expected to be 10,000, but also came in higher than expected at 25,000. Last month, this number had come in at 11,000, though it too was revised downward to 10,000.

Will these 163,000 and 172,000 numbers be revised?

To reflect the pathetic nature of the here-contemplated final rally in New York, I have labeled the **1-year Dow** chart below to reflect the related and miserable stochastic divergences against which backdrop such a final rally will have commenced.

A final rally would typically be set in motion against a very weak technical backdrop. Still, I had to note that I have never seen so many successive highs within a bearish structure; price resolution to the upside will satisfy all technical exigencies.



The following **6-month chart** illustrates the Elliott Wave labeling for the final rally in the **Barclays 20-year US government debt ETF**.

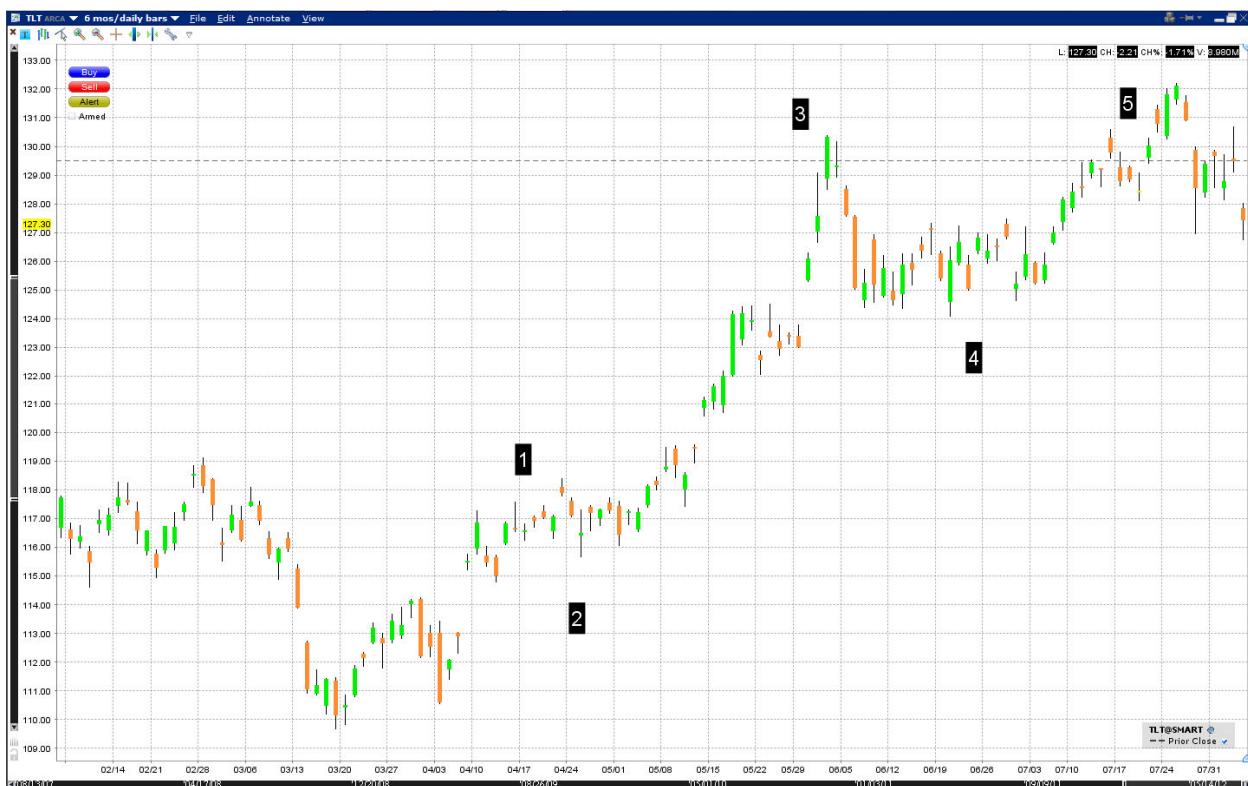
This is a game-changer for the *precious metals*, since the debt bubble's bursting will be to the benefit of *gold and silver*.

During past equity bear markets, the asset class alternative and escape was the bond market. At these yield levels, however, all such possibility has been exhausted, as the bond bull market has become the **MOST** crowded trade in the world.

This chart and commentary appears in the equity section to illustrate that the bond market's conclusion is the warning shot for ALL asset classes that all investors would be well advised to tune into.

The chart below itself concludes a greater pattern's termination (not shown), so, while a slight new high is always allowed for (though not expected), it would be met with sundry technical divergences, it would be slight, and *the outperformance of the precious metals in the interim would be the tip-off that such new highs in bonds truly should be ignored*.

Most importantly, the interpretation as regards how to view the trinity (U.S. equities, bonds and precious metals), as expressed in this report, would indeed be all but substantiated (see PRECIOUS METALS section below).



The ECB, Bank of Japan (BoJ), and the Bank of England will have all gone to the printing presses BEFORE the US Fed, and so will have left the last to most closely proximate the date of the election (election results historically relate to stock market performance; the public gauges the stock's performance by the Dow).

The chart on page-7 is a **1-year look at the DAX**, which I have selected since it is continental Europe's strongest stock index.

As you can see, I have labeled it in such a manner as to suggest that the unfolding pattern is an expanding triangle, a pattern that, by rule, represents expanding volatility.

The annotations below suggest that the next move will be to a level below point-3.

By rule, point-6 is to a level about halfway between points-4 and 5. Point-7 represents the collapse. Points-5 and 6 basically are to kill time while the Dow does its "random international walk".

The end of the year will then mark a global calamity of *epic proportions*, as countries exit the eurozone, an eventuality upon which this forecast is NOT dependent. There are "fiscal cliffs", Dollar-related earnings miseries for the US multi-nationals, etc.

(Please note the major declines into the waves marked "X" on page-3, and realize that the end of this 3rd move since 2009 will have been the conclusion to the entire phase, suggesting that the ensuing debacle MUST NECESSARILY BE the greatest of all.)

Remember, whether we are talking about *silver's* bull market or the Dow's bear market, the time and price targets to which markets are destined to attain do not change, only the form the patterns take.

Example: A tortoise and hare have a time and distance target that each achieve. The former gets there steadily, while the latter goes to sleep before dashing there. It concludes in a tie, though the form of each party's voyage was different.

For *silver*, this will have meant a dramatic spike in price and volatility, after having suffered a virtual death in volatility.

As for the Dow, this will have meant an "all-at-once-debacle" (as I have called such occurrences in the past), as opposed to a more gradual decline, like the more kind and modest smash of 2008.

***Silver* can double from here into November, while the Dow can drop 6000 points during the November - February period, perhaps from a level approximating 14000.**



For the action in 2008, please see: (<http://www.sidklein.com/NewComments/7-10-2007%20Dow%20Crash.pdf>). It helps one to understand the preceding **VIX chart** today which, like the volatilities in Europe, precious metals, etc., are at historically low levels.

JAPAN/CHINA

The following **1-year daily Yen ETF** chart on page-9 (*a 3-year graph appears in the CURRENCIES section) is presented here in lieu of a look at the Nikkei itself, since the performance of the latter will have been tied to the BoJ's commitment to printing.

Sharp was down 10% in a single day this past week, which caused another hard look at the hit to earnings caused by a single Yen.

Regarding the latter's value versus the Euro, the Japanese have clearly cautioned Christine Lagarde that the present exchange rate will not stand.

The problem for the Japanese is that their constant warnings regarding potentially huge intervention has hit a point of utter non-credibility in the global marketplace.

My track record is globally unsurpassed over the past 30 years in reflecting an intimate grasp of Japanese psychology, regardless the issue. This is not to boast, but to prepare investors to have confidence in the need to....

Get ready for shock and awe, this time where the currency is concerned {[JAPANESE EXPLOSION! \(SHOCK & AWE\)](#)}. They will correctly point out that everyone was repeatedly warned, and that they had first secured support for, or non-opposition to such massive intervention from any of their global partners.

The **Yen ETF** will collapse 10 whole points, I believe*.

Please scroll down to page-9.



The **1-year daily Morgan Stanley China A Share** chart below (page-10) can easily spike higher, as Westerners are not as focused on loosening monetary policies in China, to the extent that they could be. There are understandable "distractions" from Europe and the US.

In Japan, Westerners are not at all discounting any monetary shock and awe, while any loosening in China is not getting as much attention as would have been the case in the past.

There are so many possible sources for *precious metals* eruption, that one should realize that if they were to ALL occur, as I believe will have been the case, the scenario of risk of *gold and silver* explosion is inordinately huge.

Please scroll down to page-10.



GOLD

Due to the new findings and conclusions in this month's report, the precious metals commentary in this month's issue is spread throughout the letter, with the following additional observations.

On the technical front, a look at the price action suggests that nothing more than blips occurred on the precious metals charts during the Dow's explosion.

In other words, if recent past were prologue, a Dow pullback would be accompanied by the same in the precious metals.

However, today's report contemplates game-changing events. They would cause the Dow to rally back toward its all-time highs, while assuring the *precious metals'* outperformance of the equity markets.

Therefore, under this scenario, there would be no issue regarding directional performance during Dow declines. This conclusion is based on the printing discussed today, coupled with the continued advance of the Dow.

Printing assures outperformance, while a Dow advance provides a positive trend for gold and silver prices, even if co-directionality is the best for which the metals can hope.

For good measure, the peak or peaking process in bonds is a major underpinning for *gold and silver* investors. US and German bonds reflect the most crowded trades in the world, and when these themes collapse, where can the money go?

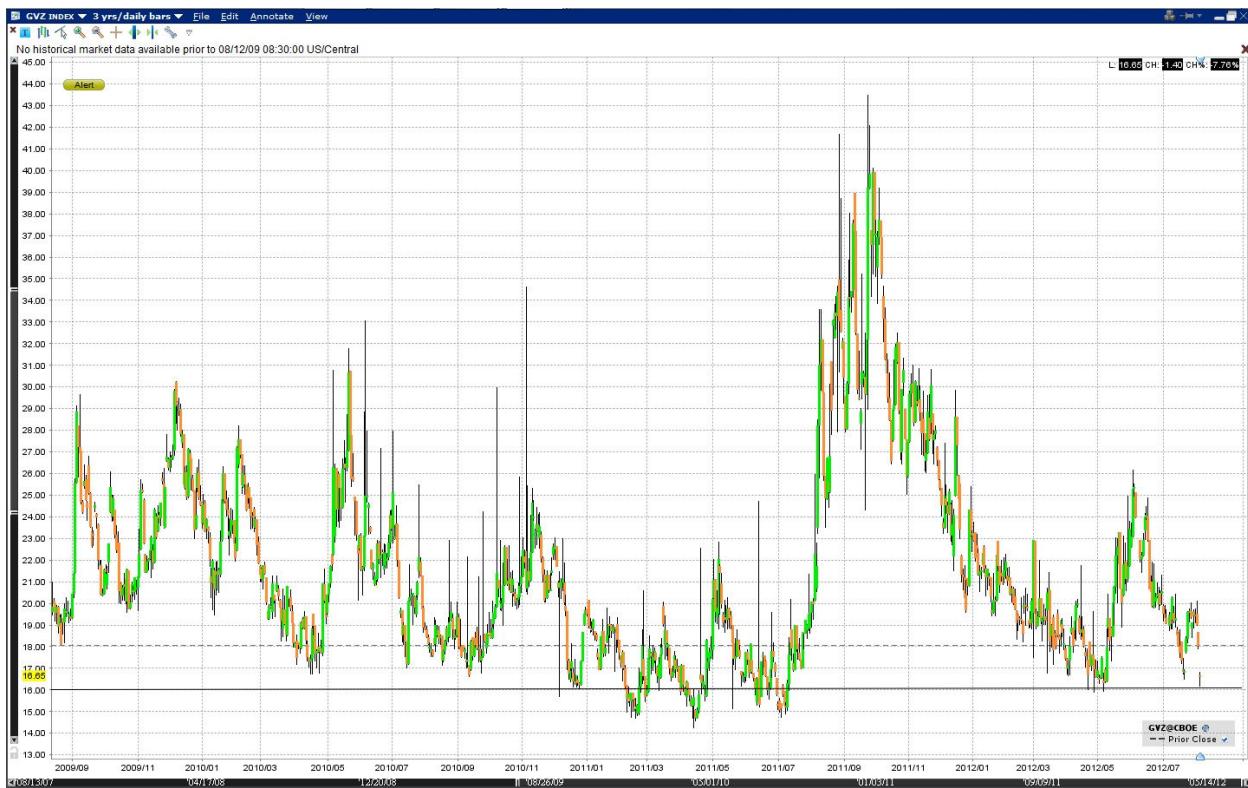
The global wealth decimation will be of EPIC proportions, and will come with shocking speed that will bring back the memories of 1987 horror, which was far worse than the ugly memories of 2008, which is about as far back as most investors' memories go.

With volatilities back to extreme lows, gold players clearly expect no break in the relationship between equities and precious metals, coupled with some doubt as to the capacity for follow-through in New York (see VIX chart above).

With a dangerous backdrop for a single-day \$70 run to the upside, therefore, I draw your attention to the **3-year chart of the GVZ (gold volatility)** chart on the next page.

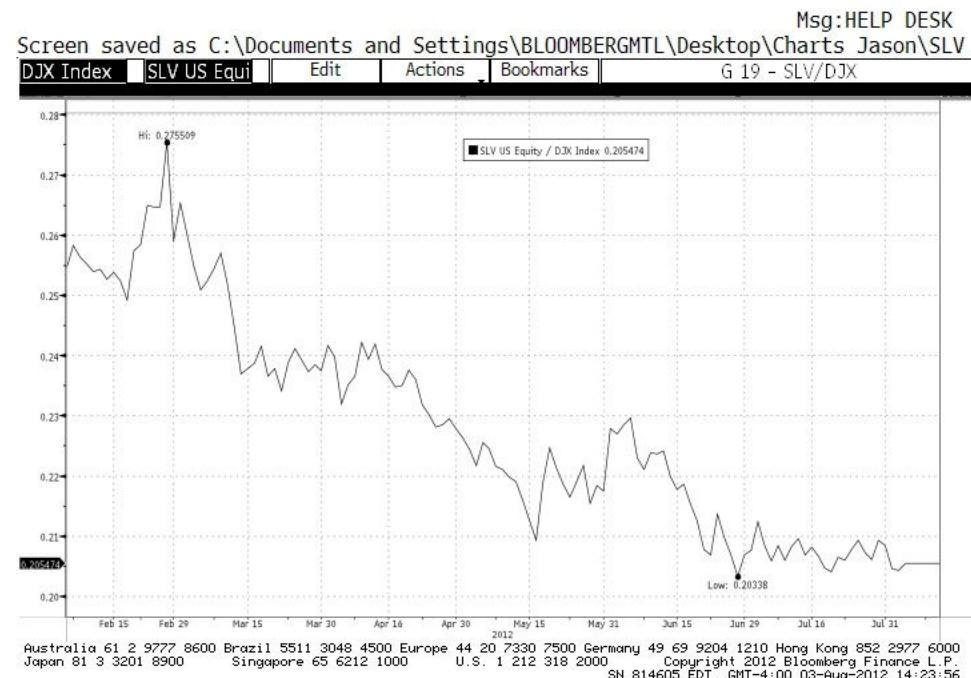
Immediately below, and preceding the GVZ chart, is a look at the **1-year GLD** (gold ETF) picture.





The GVZ chart is at 3-year low levels, while the GLD is at neckline support and trading above an apex that would typically suggest an imminent explosion. Bears beware!

SILVER



Immediately above (bottom of page-12) is the **1-year chart of the SLV:DJX ratio**.

A break above .21 would suggest that silver is gaining dominance over and establishing outperformance against the Dow (finally).

As the **6-month SLV** chart below indicates, same as gold, this metal has come into a right shoulder apex that would be consistent with an acceleration to the upside.

July 1, 2012

"Support is at 26.25, with 26.00 also fine. The market could be stunned to discover how quickly the SLV rallies to \$39."



CURRENCIES

The Dollar Index has obvious support at 80, but a break to 78 would catch the *precious metals* bears off-guard completely. Meanwhile, trend and neckline supports are in the 80.50 - 81.00 zone.

The **1-year Dollar Index chart** follows on the next page.

Please scroll down to page-14.



The 6-month Swiss Franc ETF (FXF) chart below illustrates Friday's hair-raising rally, which also tacked 1.95 to the Euro Trust shares. The latter enjoys momentum potential to the 26 - 29 zone (from 23.05); equity and PM bulls may continue to party in the short term.



Due to the peg, the Swiss Franc moves in tandem with the Euro, so I felt that it was fine to use the FXF chart as a gage for the Euro, simply because I find it easier to read.

*The **3-year Japanese Yen chart** (Yen ETF, FXY) immediately below will collapse to 113, I believe, and such a 10-point train wreck will rally the Nikkei, and more assuredly and importantly be associated with a *gold-positive* scenario of grand proportions.



Please visit the new site, <http://www.sidklein.com/investment.html>, to review commentary and charts of past major global market turning points.

Sid Klein

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