

## What to Do With Perfection? Enjoy it: 1931 Comes Twice Per Century Only



April 2, 2009

With quarter-end complete and having fulfilled several prognoses, given market events, this month's report is being published before the customary first weekend of the month. The key is that the multi-thousand advances in China, Japan and New York are well underway, as forecast at the perfect lows.

### **SUMMARY**

The recent February 23 interim report was entitled, "**HAPPY DAYS - 1931 AWAITS: HEDGE MANAGERS: AWAKE!**" The reference of course was to the monster rally which followed the 1929 crash.

The recent March 23 interim report summarized the major market cyclical turning points that were identified this decade by SKGS, in New York, Japan, China, gold, silver, the Swiss Franc and Euro and, of course, the Yen. (<http://www.sidklein.com/investment.html>)

This April letter reports that we have yet again seen another series of extremes in these markets, as very recently reiterated in the two interim reports of March 23 & 24.

Simply, the lows have been seen and higher lows on pullbacks may be used to capture what one can, during these 2009 countercyclical moves in equities, as well as 2009's resumption of the primary advances in the precious metals and currencies.

Again, whatever happens, the cross-relationships (hedge plays) have long since bottomed and, in this environment, such investments are all that I recommend. With the best risk adjusted profile, why take on any unnecessary risk, especially since there is ample leverage provided, *without* the otherwise assumed risk?!

March 1, 2009:

"The only reason why investors have lost money instead of making a ton of it without stress and greed is that they have been unable to adopt a simple prescription:

"Precious metals, Yen, Swiss Franc (equals 4 currencies) – YES. Long term Treasuries (as of 2009) and Western equities – NO. Japan – YES. Shanghai in 2008 – NO. Shanghai in 2009 – YES.

**"Straight long investments (except the 4 currencies) – NO. Hedge investments – YES!"**

## **JAPAN**

The Nikkei is the least favourable of the Japanese indices and, having said that, note that it is greatly outperforming the Dow (particularly since its 4<sup>th</sup>-quarter lows), and very much so in currency-adjusted terms.

With indices in the throes of countertrend rallies, fundamentals don't mean too much. The only fundamentals that matter and which are worth reporting are those that refer to the primary trend...so why be depressing during a rally period?

It is enough to perfectly time markets and report on how to profit from those forecasts. And that's what you pay me for.

10 and 1-year Nikkei charts follow on page 3. The first chart is a weekly graph and it illustrates a classic 5-wave (50%) collapse to complete a massive A-wave. As per Elliott Wave technical theory, the countertrend period will have been the wave-B. And the latter will be followed by a dramatic and crushing 5-wave decline to mind-numbing new lows. But that's not this year's business.

The Dow's weekly chart is clearer regarding the 5-wave decline that comprises wave-A down. Anyway, the pursuant chart on the next page (1-year daily) reflects an index that can break out strongly to the upside.



## **Strategy**

February 8, 2009:

"Japanese stocks will continue to outperform most anything, except perhaps China. In 2009, they are both relative superstars."

No change.

## **SHANGHAI**

March 1, 2009:

"There is no question that SKGS has again identified the extremes and lows in the global inter-market relationships. 2008 was easy was for hedge fund and other managers who followed SKGS, and 2009 has shaped up in like fashion."

February 8, 2009:

"Furthermore, the following chart reflects a nice uptrend and a healthy basing pattern that is well ahead of any global market. My 2008 dog of the year is my 2009 darling of the year. A pullback will create the final 2009 entry opportunity."

March 1, 2009

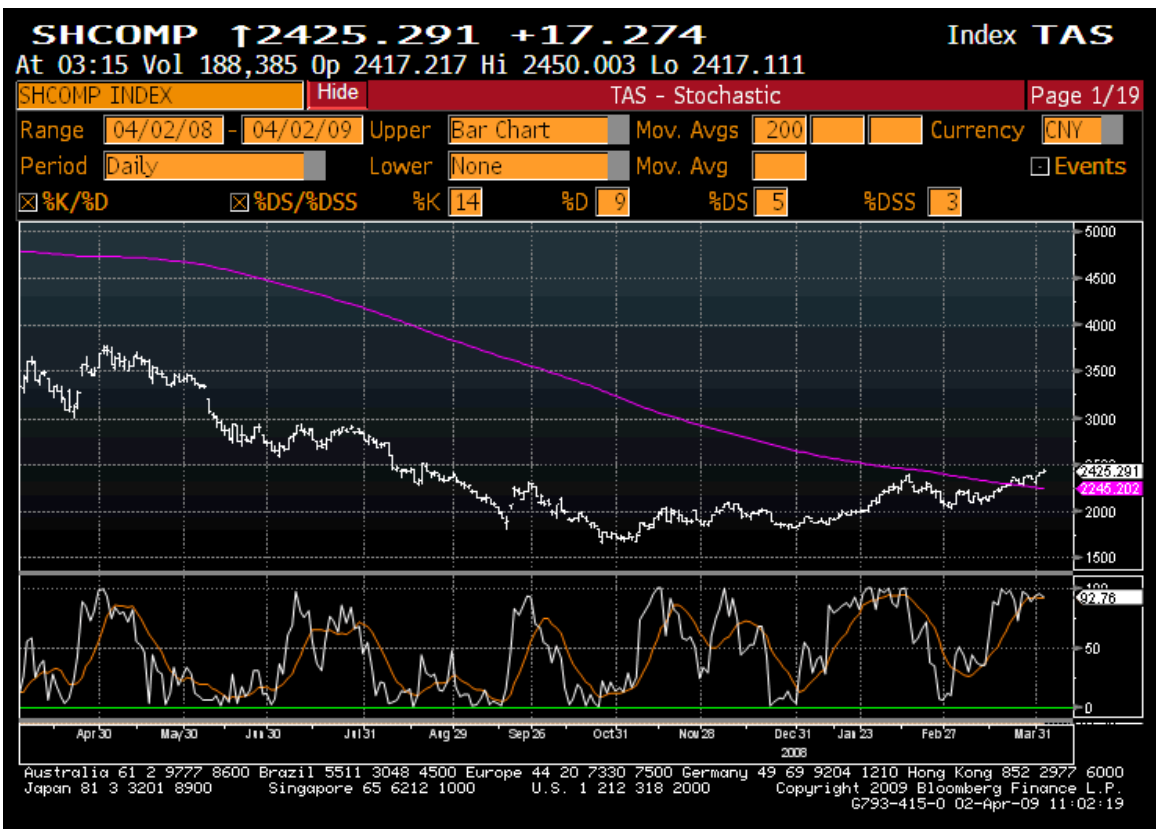
"Will the last month of the quarter provide us what we seek?"

To substantiate prior analyses, I allow the 10-year weekly charts and 1-year daily charts on page 5 to speak a thousand words.

The weekly chart illustrates a market that says "multi-thousand point rally and world leading performer in and for 2009" in neon lights.

The pursuant and second chart on the next page is the 1-year daily graph, which illustrates a clear and accelerating uptrend that can break out to the upside, from an ascending wedge pattern, after this nearly 50% rally that has already been realized.

The journalists and hedge managers were asleep on the BEST market in 2009, yes?



**Conclusion:**

No change. I called the peak last year and forecast the Shanghai index to be the dog of 2008. This year, I identified the low and forecast the index to be the shining star of 2009, to outperform all else. No change (obviously).

**NEW YORK**

February 8, 2008:

"...with a dragged out bottoming phase, where there is no real additional damage to the downside, but, rather, an accumulating frustration in the marketplace that coincides with fund managers' 1<sup>st</sup>-quarter-ending disappointments."

March 1, 2009:

"Yep, this is what's happening and the convoluted logic and proof that I present to you is that everyone is beating up on New York. That the hedge plays are all doing great is a lead indicator to the reversal after yet another 1<sup>st</sup>-quarter low (like last year), in this index that has fallen the magical 50%."

**Conclusion:**

March 1, 2009:

"A low this month, 10,400 thereafter (1931 parallel)...and, then, hell.

Firstly, I am not so sure that this underperforming garbage will even get to 10,400 and, secondly, please note how the weekly 10-year chart (the first on the next page) illustrates a clear 5-wave pattern to complete wave-A. This is instructive, in that it also aids in identifying where we are in other markets' progressions. (Please see the Nikkei's 10-year weekly chart above.)

Please note that 50% was again the magic number, as it was in Japan after the 1990 peak. I pulled the same stunts then, too.

Finally, and all-importantly for hedge players, I have expressed the correct sequence in these pages. Simply, China, Japan and New York, from strongest to weakest.

10 and 1-year Dow charts follow on page 7, respectively:



## VIX

March 1, 2009:

"The VIX is a gage of option time premiums (implied volatility). As a stock or market collapses, there is the law of diminishing returns at play (for the puts, which are downside plays), whereas an index being far off its highs speaks of large and potentially volatile upside potential (calls)."



The upshot was that managers were at risk at getting screwed by the VIX, now that they had/have the chance to play it. Simply and for the reasons expressed in the paragraph before the chart above, I argued that the VIX could rally with the market, breaking from the traditional relationship of falling with a rising (and rising with a declining market), market for the first time. We'll see if that risk materializes.

## PRECIOUS METALS

The precious metals have been outperforming everything, since quite some time.

10 and 1-year gold charts follow on page 9. The 10-year chart reflects a 5-wave advance that consumed most of this decade, before declining \$300 from \$1000, and finishing its correction near the 200-week moving average. It is the 10-year silver chart below that makes the correct Elliott (technical) interpretation clear.



March 1, 2009:

"We were 200% long (silver) and then cut that position in half after a 40% run-up. Now we're long forever, or until otherwise notified, whichever comes first."

Note the stunning collapse in silver, which corrected the entire advance this decade. This brilliant tree-shaking (as assets were sold to meet margin calls, thereby reverting silver to its proper owners) brought the metal back to the peak of wave-1 (2003), where we nailed the low.



## YEN & DOLLAR INDEX

Apart from the Swiss Franc, the Yen is the only fiat currency SKGS readers hold. I had referred to it as the best currency for capital gains, several months before it finally took off, and at levels that have since made the wait very worthwhile.

10 and 1-year Yen charts follow on page 11.

March 1, 2009:

"This very sharp short term Dollar/Yen rally is coming to an end."

As you see on the daily 1-year graph (2<sup>nd</sup> chart), I have good cause to believe this, and still do. The 10-year+ lows that I prematurely forecasted will be revisited.



Consistent with the Yen analysis above, the 10-year weekly chart immediately below illustrates a clear and powerful countertrend 3-wave rally (corrections comprise 3 waves) of just under 30%.

The stochastic also reflects a clear and ominously negative divergence.

The daily 1-year chart on page 13 provides an unmistakable look at the 3 wave movement referenced above.



Please scroll down to page 13.



Given present market conditions, I will continue bolster coverage with additional interim reports.

Sid Klein

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