

OF BLOW-OFFS & LAGGARD'S LIMITS



April 2, 2010

JAPAN

At the Nikkei low of 7000, SKGS forecast 11,000. Recently, the Nikkei fell points shy of the idealized target. This time, we've crossed it by 273 points, intra-day.

How far can the blow-offs go in the Eastern markets depends on the market, but the lags between peaks them (and all the global indices), in fact, will be narrow.

Over the last 20 years, the month of March's extreme has been a trend reverser in Japan. Considering the [Yen](#), however, the best peak at which to exit was in December, for most.

The 10-year weekly and 2-year daily Nikkei charts that appear on page 2 illustrate the risk underneath the market, in this index which is dominated by multi-nationals and financial institutions.

This index is at the same level of risk for the next 2000 points down as the Dow.

However, this pattern, here seen as one of the global index laggards, has potential to 12,000, on a purely technical alternate scenario basis. **It's not March, and who is the venturesome genius who wishes to bet on a 5th-wave extension, anyway?**

Front-runners sell in advance of such obvious resistance levels, such as 12,000.



CHINA

After having become such an obvious leader in global equity timing (partly because of guys like me?), the question is whether this time it was a laggard.

Well, the pennant within a pennant discussed below, illustrates a dragged-out corrective phase, so that time during a bull phase was being squandered on time wasted.

By remaining in its 6-month long pennant, the Shanghai index has been a major **laggard and underperformer** in the world markets all year.

Either way, I don't believe that such the spike rally, as contemplated below, **would** touch the 2009 4th-quarter peak, anyway (**thereby remaining the laggard**).

According to the Elliott interpretation that follows the following excerpts, the referenced points along the pennant walls may now be very temporarily breached, to complete the pattern's Elliott *exigencies*.

The following excerpts reflect previous warnings when the Shanghai index chart bounced within its pennant.

From the January 10, 2010 letter:

"Indeed, this badly weakening index is just points from 3,500 and the end of wave c of c. Yes, it is THAT close to its demise."

From the March 7, 2010 letter:

"SKGS identified the peak in China, the low of its subsequent collapse below 2000 and forecast the ensuing rally to 3500, plus or minus. So, what of the analysis expressed in the 2 paragraphs above, regarding this "forerunner index?"

The 10-year weekly and 2-year daily charts that appear on page 4 reflect a multi-month pennant (along with a subdivided pennant within).

This Elliott formation often resolves with a spike breakout, which reverses to its point of origin with **equally** sharp speed.

Without getting into the fundamental explanations, then, the conclusion is that a stab toward the Shanghai index's peak, whether it falls short or not, would reverse to present levels with equal speed.

A laggard and major risk, the Shanghai index continues to offers multiple strategic opportunities.



NEW YORK

Okay, this is the market the global indices have been lagging. The money-printing went to the aid of the global multi-nationals.

This shows why I continue to use the Dow Jones Industrial average as the best basis for the study of sentiment.

From the March 7, 2010 report:

"When it's a second go-round, the targeting of the peak has historically been within days. So, remain confidently and positively negative, for yet another thrill ride."

The January 10 strategy section remained unchanged from the prior month:
"The Dow is rolling over and dangerously close to its tipping point NOW, in line with global market activity. 5000, give or take, awaits below, through 2011. This next cycle, which is commencing NOW will take the Dow to the 4000-6000 area."

For the record, I had forecast that the rally off of the low under 10,000 would make new highs, IF the 10,200 area was worked through. After having reiterated that advice, I then recommended standing aside until this month was over (March SKGS).

To describe a pattern that is typical at major tops, last month I also wrote:
"The move is controlled and manipulated, as "insiders" off-load their inventories. The end of quarter window dressing will potentially end with a bang that drives the Dow lower by a couple of thousand points this year, to get the ball rolling."

"This year" just means, 'minimum expectation at ANY time!'"

The March 7, 2010 report discussed the phenomenon of no lead times before peaks, as well as its relationship to insider activity (financial and political). I recommend review of the NEW YORK section of that report.

Strategy

Also from March 7, 2010:

"I don't believe that the Dow will get to 11,142, but I do believe that the best strategy is to play this according to time, not price. Let the month go by and benefit from premiums being crushed further, as the Dow ekes out a very minor new high."

Summary

In the big picture, be sure that this new Dow high will have been viewed as "minor."

With window dressing over, the full show is to convince that the time-extended rally was real, and continuing into April is an attempt to substantiate that. Such would be the complete window-dressing show at this major peak.

Can you believe that this past quarter was the best in 12 years?! Among the most manipulated, too?

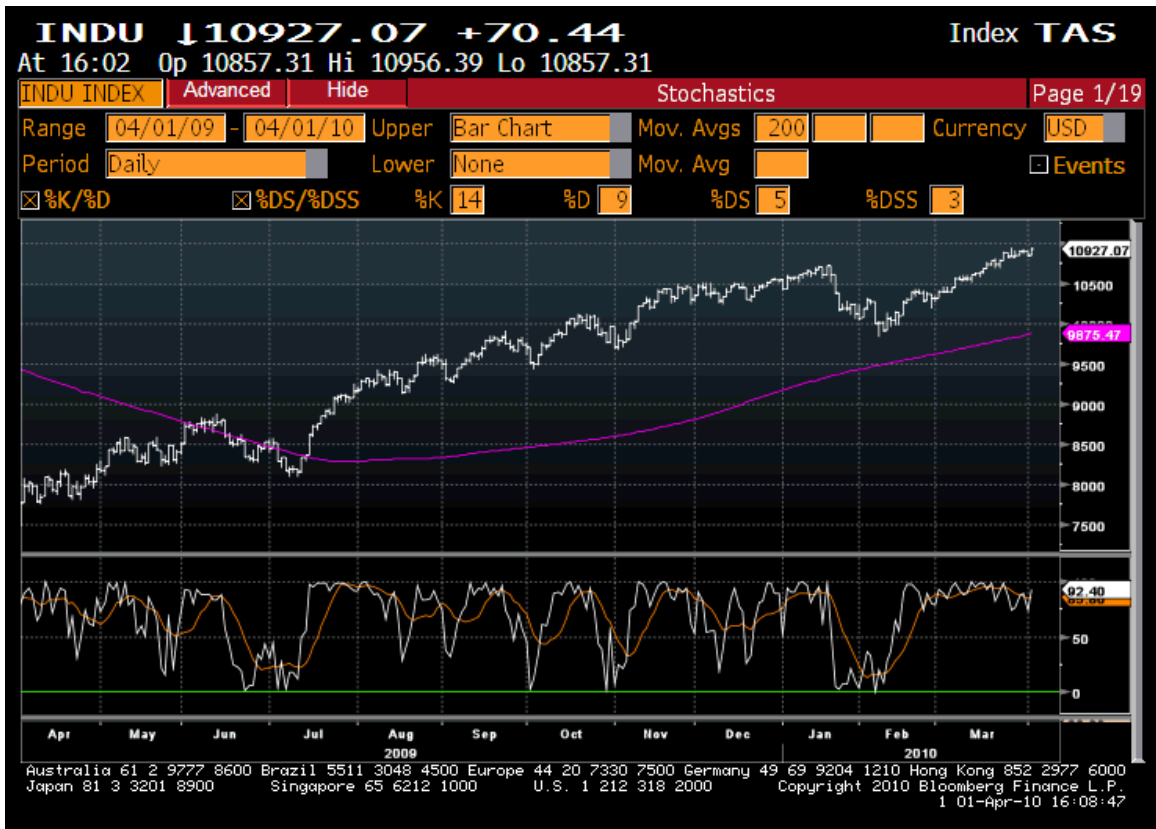
It would be typical for the Dow to start its collapse some days into April, after a brief new-quarter-stall, then. (See PRECIOUS METALS SECTION.)



I have often written that the market is largely invested at the Dow-11,200 area and, sure enough, the 200-week moving average (MA) (in the chart above) is in that zone.

The 200-week is divergent.

More importantly, the 2-year Dow's 200-day MA is divergent. It also reflects all the requisite Elliott subdivisions needed to complete its post-2008 move.



The Dow's 200-day MA is down in the 20%-Dow correction area, under 9000.

VIX

The 10-year weekly chart of the VIX on page 8, shows a bullish reverse shoulder-head-shoulder pattern, which formed during the 2005-2008 period.

The period also created a bowling formation, which indicates a loss of momentum that precedes a reversing pattern.

Then, the 2-year daily VIX chart on page 9 illustrates its own bowling formation, which I interpret as pent-up volatility. This will drive ALL premiums higher, EVERYWHERE.

After the explosion toward unprecedented heights, the VIX has corrected to massive neckline support in the upper teens.

Strategy

We bought the VIX on the day of the low, going long at 16.93.

Again drawing from the March report:

“The stop remains a close-only of 15.75. Why not close the position, given the Dow analysis above?”

“Simply, it is dangerous to be out of any bearish theme altogether, assuming one is not invested in the recommended long/short plays, which offer superior downside leverage and safety.”

Last month’s strategy has been a good one, since the VIX has not made a new low, despite the progressive new highs in the market. Therefore, the strategy remains unchanged.

All downtrend patterns are waning in momentum and primed for a violent upside reversal, which would ideally relate to a violent equity market reversal south.

This massive support in the VIX will not be shattered.





PRECIOUS METALS AND CURRENCIES

Following the March 14, 2010 interim letter that focused on the precious metals and their stocks, I wrote 2 reports for Gold-Eagle, the links to which appear immediately hereunder.

- March 31, 2010: [GDXJ vs GDX And Gold](#) (junior and senior gold stocks)
- March 24, 2010: [GOLD 1500](#)

NB: The sole addendum to these reports pertains to ANY exit or shorting strategy: An XAU exit strategy should be executed according to TIME, not PRICE, on this occasion.

The XAU has been among the global laggards to the Dow. Breakout blow-offs could take gold and the XAU to levels around \$1,185 and 185, respectively, if by next Thursday.

As for the currencies, the reports only make brief mention, though the short version is that the trends remain in force.

There is no change since having identified the peak in the Yen and low in the Dollar, at which time the asset allocation model was slightly altered, as well.

SUMMARY

The [USD](#) will soon resume its bear market, though it could complete the original forecast, to more closely satisfy my fourth-quarter prognoses.

Okay, play the play; you have enough to go on. However, if one wishes to play the player, a question ought to be considered:

A look at SKGS's history with global markets, including 2nd attempts to nail the market in question when the first crack didn't do it, with all that is at stake, do you think that it is prudent to not take my recommendation now?

Sid Klein

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