

The Sid Klein Comment

1001 BOUL. DE MAISONNEUVE O., BUREAU 950, MONTREAL, CANADA H3A 3C8
TEL: (514) 939-2221 FAX: (309) 417-0942
e-mail: sidklein@sidklein.com
www.sidklein.com

11,700 WAS THE HIGH; NOW THE “COMPLEX” COUNTERTREND RALLY IS OVER!



August 1, 2006

NEW YORK:

From the July 18, 2006 interim report:

“The Dow put in a 100-point reversal day today. By slightly breaking below 10,700, the VIX spiked up to a point from which it in turn reversed to the downside. Both taken together means that should another multi-hundred-point bounce ensue through these summer months, another option premium bashing event will have taken place.

“This was probably the last (though less significant) tradable event, pre-crash. The next peak may be around 11,000 in the first week of August, or so. If this transpires, then the next decline may not be to 10,200, which is where I had initially placed the next support. In fact, one may more reasonably expect a 3000-point debacle.”

Today, the Dow traded as high as 11219.1, before closing under 11,200. The VIX reversed to the upside, with implied volatility (option premiums) having tanked to cheap levels, as bears have capitulated. As the quoted interim report above reflects, for a second time the 10,700 level predictably held.

We went short today (building positions to their highest levels yet) and a full-fledged crash will now get underway.

There are a number of short-term scenarios, of course. They include a pop up in the morning (Tuesday August 2nd) before reversing, or a 100-point down day right from the opening, before a third leg in this C-wave that merely returns the Dow to about the same levels as today's highs, probably on the back of the celebration of a rate hike that doesn't occur next week.

Not that it matters, but I don't believe the hike will occur. The economy is decelerating at a faster pace than what people know. Housing numbers came in and they were terrible. As CNBC underscored when the terrible numbers came out, they don't even include cancellations!

The reason the economy is in a precarious position is because consumer confidence can quickly return to that level seen only temporarily at the end of last October. That number related to Dow 7000, but that consumer confidence indicator level has since never appeared, as the number is a quarterly calculation. I happened to see an intra-quarter figure. Please revisit the 4th quarter's reports; I published the chart twice (it was a chart produced by Thompson Research, taken out of the Financial Times). The consumer is so stretched that it takes little to get us to those levels and, remember, these housing numbers are an indication that the trigger to this disastrous domino effect may have begun.

Or shall we discuss natural gas or oil prices, which are higher than when that disastrous consumer confidence figure had come out? Or shall we discuss hurricanes (which affect confidence and energy prices...which in turn affects confidence)? Just do me a favour and don't discuss war.

How many times have I and other pros written to never look such foolishness. People do so because it's something that can be analyze, even accurately. Then all that's required is the belief that there's a connection. There isn't. On the day of the greatest acceleration of fighting and Israeli advancement (according to CNBC), the Dow took off 200 points as the market judged that the fighting would remain regional and not spread to Iran or anything that could affect oil prices. The latter is a paraphrase from CNBC reporting.

By the way, the rally came off of oversold level that included stretched put option premiums that were discounting lower levels. Stick to the market, if it's the market that you're analyzing. This is just a bit higher than markets-101.

I have repeatedly harped on the housing situation, as well as the consumer confidence situation, but I've also made a stink about the poor 4th quarter and poorer 1st quarter of 2007 that we're about to see. Indeed, the numbers coming out so far indicate just that. I've often pointed out that, in this modern and corrupt (manipulated) era, the market doesn't discount so much as behave coincidentally to the unfolding of terrible news (economic news). This means that one can truly take advantage.

The Dow can now cut like butter to 8000. I'll then review how I feel about 6500, my initial target. Basis gold, we got there a long time ago. Now we'll see what we do in Dollars.

Instead of the standard and lengthy monthly reporting that I've been offering investors and readers, you'll continue to receive more reports of shorter length, each with greater focus on one of our covered markets (Japan, New York, precious metals, the Dollar). Always feel free to email any question or request a consultation call if you deem it necessary. These are wild times, and I'll be available – for pro and retailer alike.

Sid Klein

LEGAL NOTICE: This market letter is the work product and intellectual property of Mr. Sidney Klein. It arises out of his training and profession as an international expert on financial equities. It is a private correspondence from Mr. Klein to his subscribers. Any person who copies or otherwise disseminates this letter becomes subject to international criminal and/or civil prosecution under the Universal Copyright Convention and the Berne Convention for the Protection of Literary and Artistic Works. Nearly all countries in the world have signed both of these Conventions and have pledged to enforce them through their own legal systems. In addition, Interpol may be called upon to assist in the international enforcement of these Conventions through its processes of arrest and extradition. If you are the *recipient* of a copy of this market letter, whether through the internet or by facsimile, you should immediately report to Mr. Klein the name of the person or entity who sent it to you. Send your email to sidklein@sidklein.com.

DISCLAIMER: This market letter is intended to assist in the dissemination of information to private subscribers. The information contained herein represents Mr. Klein's best efforts in good faith to advance knowledge to his clientele, but there can be no implied guarantee as to its accuracy or completeness. The information is given as of the date appearing on this market letter, and Mr. Klein assumes no obligation to update the information or advise on further developments relating to the information provided herein. No solicitation to buy or sell securities is intended, and none should be inferred. Investments are inherently risky, but investment risk itself is a function of individual preferences. Thus any opinions, recommendations, or judgments expressed in this market letter are of necessity abstract and general. They must be modified, accepted, or rejected by individual subscriber/investors whose risk averseness cannot be known to Mr. Klein.

