

# Turning Points, Again?



August 1, 2010

## **JAPAN**

This past week included a sharp rally in the Nikkei, which was more a reaction to its recent and overdone underperformance versus other global indices than anything else; the trends are still down. The July 4, 2010 commentary remains *en vigueur*. But for how long?

From mid-2007 through early 2009, 3 of 5 waves completed.

Of the 5 waves required to complete the sequence (as the 5<sup>th</sup> wave must itself break down into 5 waves), wave-2 concluded at the end of this April, while wave-3 ended in June.

If the sharp rally that occurred during this past week marked the end of wave-4, then a concluding wave-5 may get going to end its decline from the 2007 peak. The implications of the Elliott Wave interpretation in this section are self-evident,

though please review the July 4, 2010 report for context should there be any doubt. The 10-year weekly and 1-year daily charts follow, respectively.



# CHINA

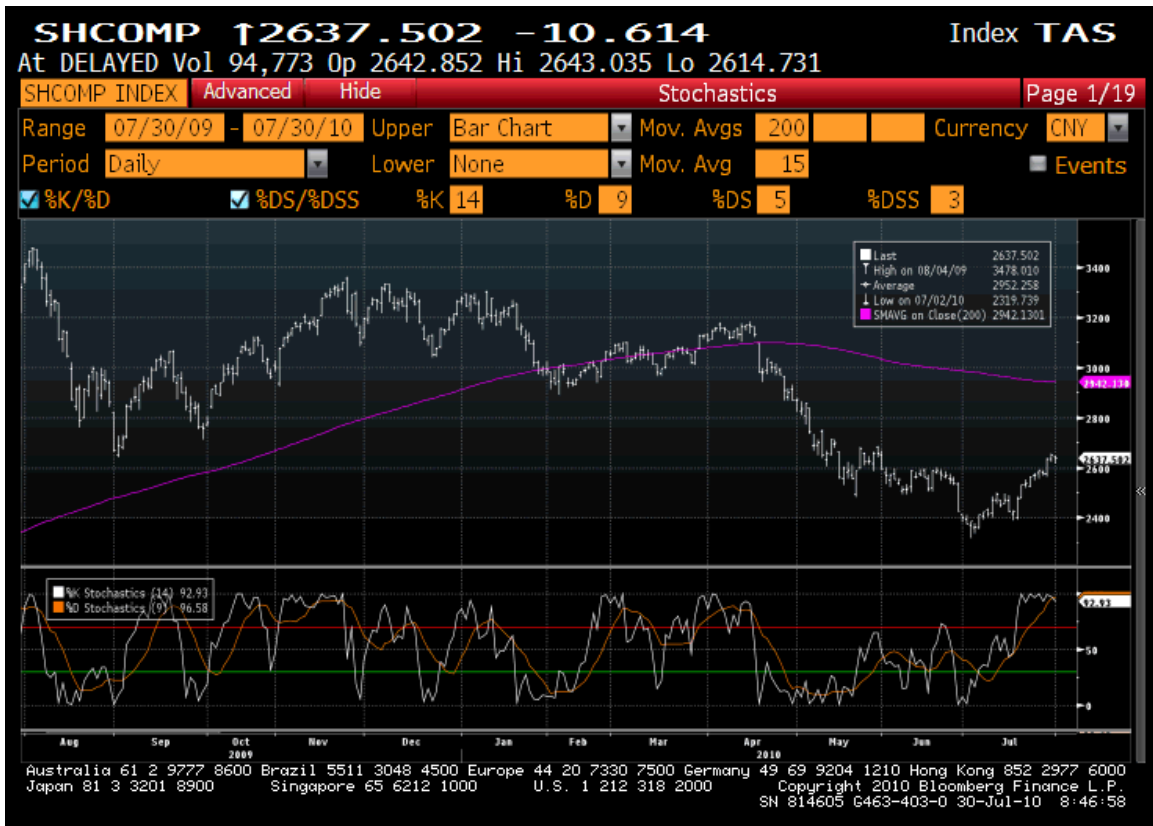
The major peaks and troughs since 2007 were identified, while also having been forecasted, though with imprecision and lesser confidence more recently (as far as precision is concerned).

The longer term chart tells a story of possible further countertrend rally toward 3000, while the 1-year chart suggests that the greater decline may resume at any time.

Either way, the 2 charts are in agreement: any moves upward are against the major trend and therefore do not matter anyway. So, rallies should therefore be ignored, as far as strategic allocation is concerned.

The 10-year weekly and 1-year daily charts follow, respectively.





## KOREA

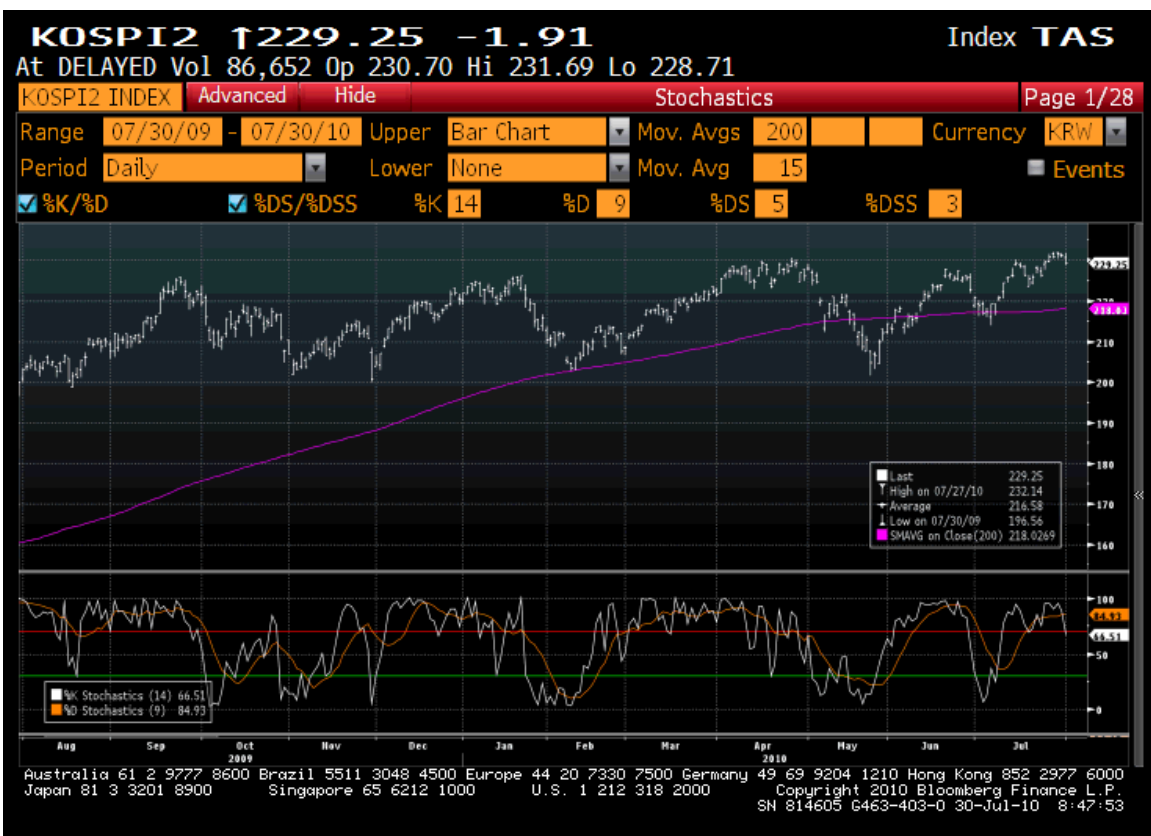
The 1-year chart below illustrates yet another test of the upper trend-line that connects the peaks going back to September 2009.

This past week's peak touches that trend-line, as illustrated by the 1-year chart below. Even the weekly chart's stochastic would diverge, if the Kospi-200 were to decline from here.

Admittedly, it is only the daily chart's divergences that matter, insofar as the peaks of countertrend movements are concerned.

In fact, the daily chart presently suffers from a dangerous stochastic divergence, and of that sort that makes the index particularly vulnerable to hard and swift decline.

The 10-year weekly and 1-year daily charts follow on page 5, respectively.



## DOW JONES

The Dow rallied back to 10,600, apparently putting in place a most worrisome “a-b-c flat”, in Elliott Wave terms. The S&P’s “a-b-c weak” pattern (not shown) is reminiscent of the formation seen during the period of August – October of 1987.

“Under 9000” is still the mantra, just to be credible for the cautious bulls who seek reasonable strategies. As you know, I believe that to be the tip of the iceberg, en route to the 4000 – 5000 area into 2012.

Of course, I don’t know if I even have any “cautious bulls” among my readership, which tends to attract a more knowledgeable crowd.

Still, as I did not foresee the most recent rally from 10,000, I *might* revisit the best global strategy, upon the market’s return to that level; I expect that pullback very soon.

The 10-year weekly and 1-year daily Dow charts follow on this and the next page, respectively.





## VIX

### July 4, SKGS 2010 letter:

"The June 20, 2010 report advised going long at the next day's open. Thus, we nailed another VIX low, this time at 22.87."

This past week included a minor breach of the above level, a level where I suspect that traders were stopped-out, yet at a price above 20. Traders want in at the latter level, and so this week's mini-flush constitutes a minor break to a price that I have previously referred to as "an in-between level" (regardless the market).

Simply, the "in-between level" is a price where everyone is screwed, those who were stopped-out, as well as those seeking to get in. After all, as my mentor taught me over 25 years ago: *'The market exists to screw the majority of the people, the majority of the time'*.

Still, the VIX position will be one of the trades considered, when contemplating the global revision referenced at the end of the previous section.

For the present, we are looking at a massive triangle that began this past May, through to this past week's low; and if we were to indeed reverse upward from

here, the pattern would also leave in its wake a conclusion at a major price support level, support at the 200-day moving average, a right shoulder that is equidistant to the April head (left shoulder in early January), as well as a price move into the triangle's apex. If.

Evidencing these, the 1-year daily chart follows.



## PRECIOUS METALS

As forecasted (summer, fall, 2009), gold broke out of its pennant formation and extended its bull market above \$1,000 per ounce last October. I had also felt that the rally would extend to such a level that should be followed by a \$100 - \$150 correction back to the \$1,050 level, or so.

However, I also warned that the long term chart (see below) was preparing to accelerate its pattern, toward my target for this phase of the very long term cycle, to \$3,500.

\*Subsequently, these reports' commentaries concluded that the rally extended farther than foreseen, and that it had therefore included an upward-trending CORRECTION, as has often been the case during gold's bull market since 2001.

The 10-year weekly and 1-year daily charts follow, respectively. (Commentary continues on page 10.)



Consistent with the comments on page 8, I raised my expectations (concerns) to include the probability of a correction that ends at \$1,150.

Apart from this, please recall that I have often warned that gold's CORRECTIONS conclude with spikes down, which would frighten investors into worrying that a correction was just BEGINNING! Why?

Because the correction was within an uptrend that included new highs within its move (see SKGS excerpts below for further clarification). Therefore, simple-minded managers and technicians shake in their boots year after year, right when they should be buying, as these spikes CONCLUDE the correction in question.

Sure enough, this week's 1-day correction of over \$20 brought the business channels' talking heads out to express their utter disbelief that gold would resume its bull market anytime soon!

They have, among other things, OVER-accepted my argument that investors need to raise cash from what they own, and gold is what investors have piled into during more recent uncertainties.

There is hardly ANY acceptance in the marketplace that a secular bull market has been underway over the past 10(!) years, despite a \$1,000 advance in the metal that had come to engender nothing but bearishness over the preceding decades.

The talking heads may have come out just in time for the Wave-3 acceleration up. If I'm wrong about the short term, who cares!? This should be your attitude.

However, the picture is different for the precious metals indices, which tend to track silver, I still maintain.

\*Market commentary has finally surfaced that gold and the precious metals equities are following the broader stock market.

It could concern me that others are now taking in SKGS's mantra, but since we only agree on one of two counts, we may still be safe.

**July 4, 2010 SKGS report:**

"Gold spiked lower in dramatic fashion (chart not shown) since the last missive, and, just as quickly, I warned investors that it was another manipulated fooler.

"By falling with speed and in large chunks, the crowd doesn't realize that gold's corrections have been masked by the fact that they mostly have been up-trending corrections.

"So, we are closer to a dramatic acceleration toward 2000 than what many realize. (See recent article, [GOLD 1500](#).)

"I forecasted that the reason that would be given for a final correction-concluding decline would be the need for otherwise pained investors to cash in on where they had been placing their fear-stricken funds since May.

"Simply, you can only sell what you own."

"Still, the latter's chart seems to be in virtual lockstep with the XAU (see [GDXJ vs GDX And Gold](#)). The preceding link explains the case for the type of correction that we are seeing right now in the XAU, even though it carried slightly higher. (Commentary continues following the 1-year XAU chart immediately below.)

"The index may have carried a little farther than expected – as did gold itself – but nothing altered the wave counts for anything involved in the precious metals complex, including the related equities.

"Once this Wave-C decline is complete, a spectacular opportunity will present itself, of the sort that comes but once or twice a century.

"Therefore, I have included the above precious metals-related links. The two PM reports explain how a Wave-3 eruption, to heretofore unseen PM equity levels, may be expected even as the stock market melts."

The comments in this section, along with its forecasts for gold and its equities, again seem to be vindicated, including with this past week's concluding \$13 rally (see 1-year chart above).

\* - [GDXJ vs GDX And Gold](#) - 31 March 2010

\* - [GOLD 1500](#) - 25 March 2010

**Silver's** correction may likewise find support at higher levels than what had been initially anticipated in these pages. It may find support at \$17, or so, but we did come close enough.

This begs the question, "If the XAU's chart is profoundly similar to that of silver's, how would it stay down (if silver is rallying)?" All I can express is that there are market crosscurrents and that it is a very difficult time to be a global strategist.

I add further that a wonderful futures trader and commentator from my Bache days used to say, "Do NOT correlate markets when analyzing." A worthwhile observation, indeed.



## DOLLAR, DOLLAR/YEN

### July 4, 2010 SKGS report:

"We are getting ever closer to a revision in our asset allocation model..."

Charts of the USD and USD/Yen follow the commentary here, respectively; in each case, the 10-year weekly and 1-year daily charts accompany, respectively.

The 10-year chart reflects the [USD](#)'s move up from the 4<sup>th</sup>-quarter low, which was perfectly identified in these pages.

In that report (linked above), I forecast a move to 90, which could conclude wave-a of an a-b-c corrective pattern up, which would potentially be followed by a correction-concluding wave-c move upward to 100.

The Dollar Index's 200-week moving average (3-year, which is a key long term cycle) is being hit, while the stochastic is plainly oversold. Meanwhile, a bullish reverse shoulder-head-shoulder pattern is plainly in place.

If all that weren't enough, the 1-year chart on the next page illustrates a 200-day moving average that is being hit at the same time, as well! A break above 90 will send the bears running for cover...covering their short positions!





The November 2009 peak in the Yen is being hit, as we see from the Dollar/Yen weekly 10-year and daily 1-year charts that follow these comments. (The Yen's peaks are marked by LOWS in the Dollar/Yen charts on page 15.)

I advised going long the Yen at 116 – 117, months before it finally hit its lows, amid ridiculous and universally accepted foolishness which cited the possibility that “they” would never allow the carry trade to be unwound.

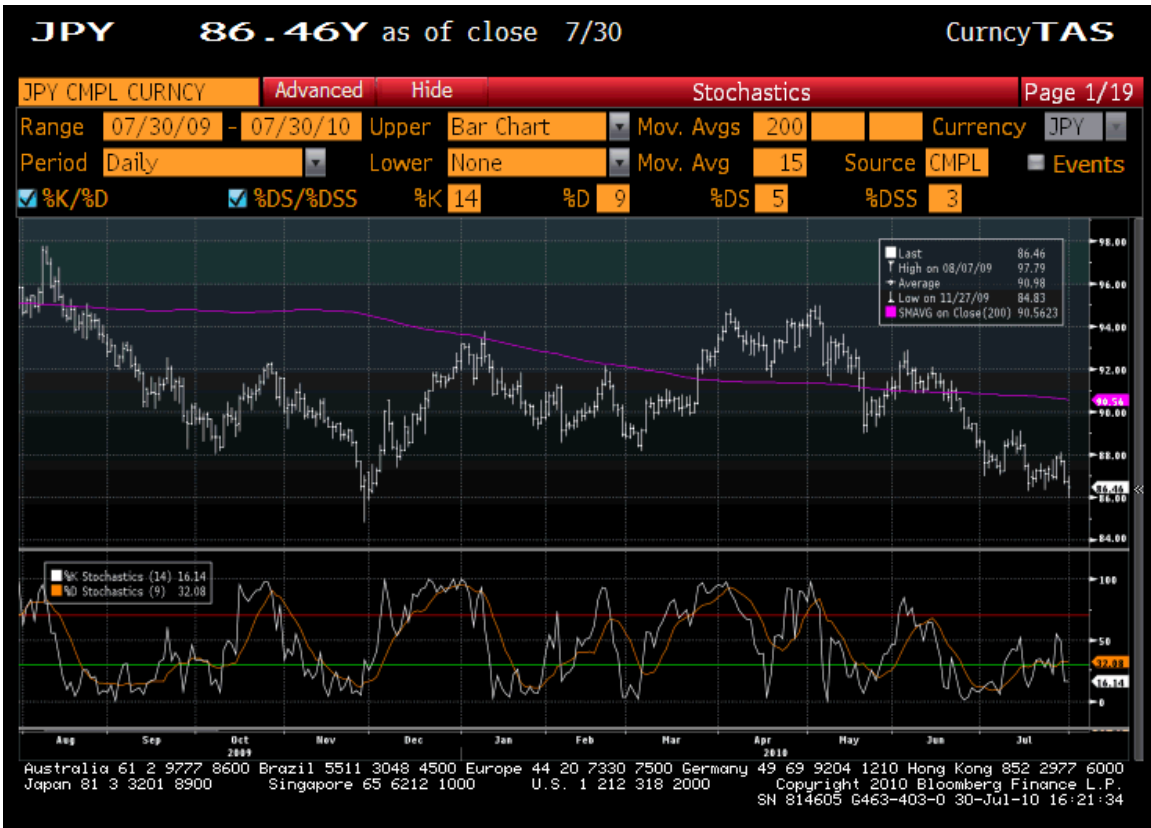
What “they” could not foresee was that the carry-trade would be unwound by a massive American printing press.

Please note the here-linked exclusive report that was written for Gold-Eagle.

**Yen Monetization: The Fair Fight?**

Thereafter and further coupled with the comments in the JAPAN section, as forewarned, please note that **I hereby officially recommend taking massive profits (presently under 82) in what I had called the “best fiat currency in the world for capital appreciation.”**

Based on 116.50 and 81.61 Dollar/Yen (presently 81.61), the gain equals **30%!**



## ASSET ALLOCATION

Therefore, my asset allocation has undergone a strategic and customarily rare change.

Since 2002, NO ONE in the world that I know of has enjoyed such a consistent and hugely successful risk adjusted asset allocation model, insofar as which fiat or hard currencies in which to maintain all liquid wealth is concerned.

Yes, I am aware that a strong Dollar would ordinarily carry with it certain implications for gold or the stock market. However, as wrote earlier in this letter, I will not attempt to correlate markets and we'll see where that takes us.

Anyway, Japan watchers would be wise to note the Yen commentary contained in this and the last report (July 4, 2010).

Finally, my asset allocation model now reflects:

**50% gold, with 25% Swiss Franc, and 25% US Dollar.**

Sid Klein

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