

Near-Term, Wrong - Long-Term, We're Good



August 10, 2008

GOLD

"Having analyzed the patterns and indicators, I believe gold will now make a new high with a \$100 run-up, before a more serious price/time correction."

The above quote from the July market letter suggested that a final move up was at hand, which would be followed by a strategic scaling back of gold holdings by 50%, at last.

Those who know my style realize that I recommend scaling back, before any final sub-division, if I indeed feel that the move up is indeed that advanced, with the anticipated move to follow being one that is expected to be so deep as to merit such a large scaling back of positions.

However, this time, I didn't actually come out and write so, and, via the commentary on silver last week, I only discussed a plausible bet the final move up, albeit with a very tight stop (silver).

The attention was in the wrong place, simply put, for while the July report did discuss the need to scale back 50% after the last sub-division, and while, in such situations strategy is geared to focus on same, the reality is that I did not clearly write to scale back 50% but, rather, provided a market call for short-term speculators. In its entirety, this was all a massive break from how SKC has done business, since turning bullish in the 1st-quarter of 2002 at gold \$280. For this, I was deeply mistaken.

To have an incorrect market call is one thing, but to have the intermediate term view correct, but express the incorrect strategy was/is unacceptable. I've never made that error before, having always focused on the long and intermediate terms trends, and unsurpassed by anyone in the world, I suspect. As much as that might sound like bravado, it is very close to reality, and, to that same extent, just as unacceptable strategy-wise, given the mandate of these reports, insofar as gold in particular is concerned.



"As a matter of fact, one could (if sufficiently venturesome, and if it is appropriate for the portfolio in question) take a 150% position and use a close-only stop below \$17."

The chart at the bottom of page 3 reflects how quickly a speculator would have been put out of his misery. As well, it illustrates why one shouldn't touch either gold or silver, until the dust has settled.

Strategy:

The look-back rallies in gold and silver toward \$1,000 and \$20, respectively, were each "B-waves", implying that the moves up were part of corrective sequences. The upshot further is that another and more time consuming (as opposed to price oriented) leg of correction is at hand, imminently. My, what a difference a week makes.

Basis gold, a rally toward \$920 would be an excellent opportunity to appreciably scale back gold and silver.

U.S. TOTAL FEDERAL GOV'T DEBT

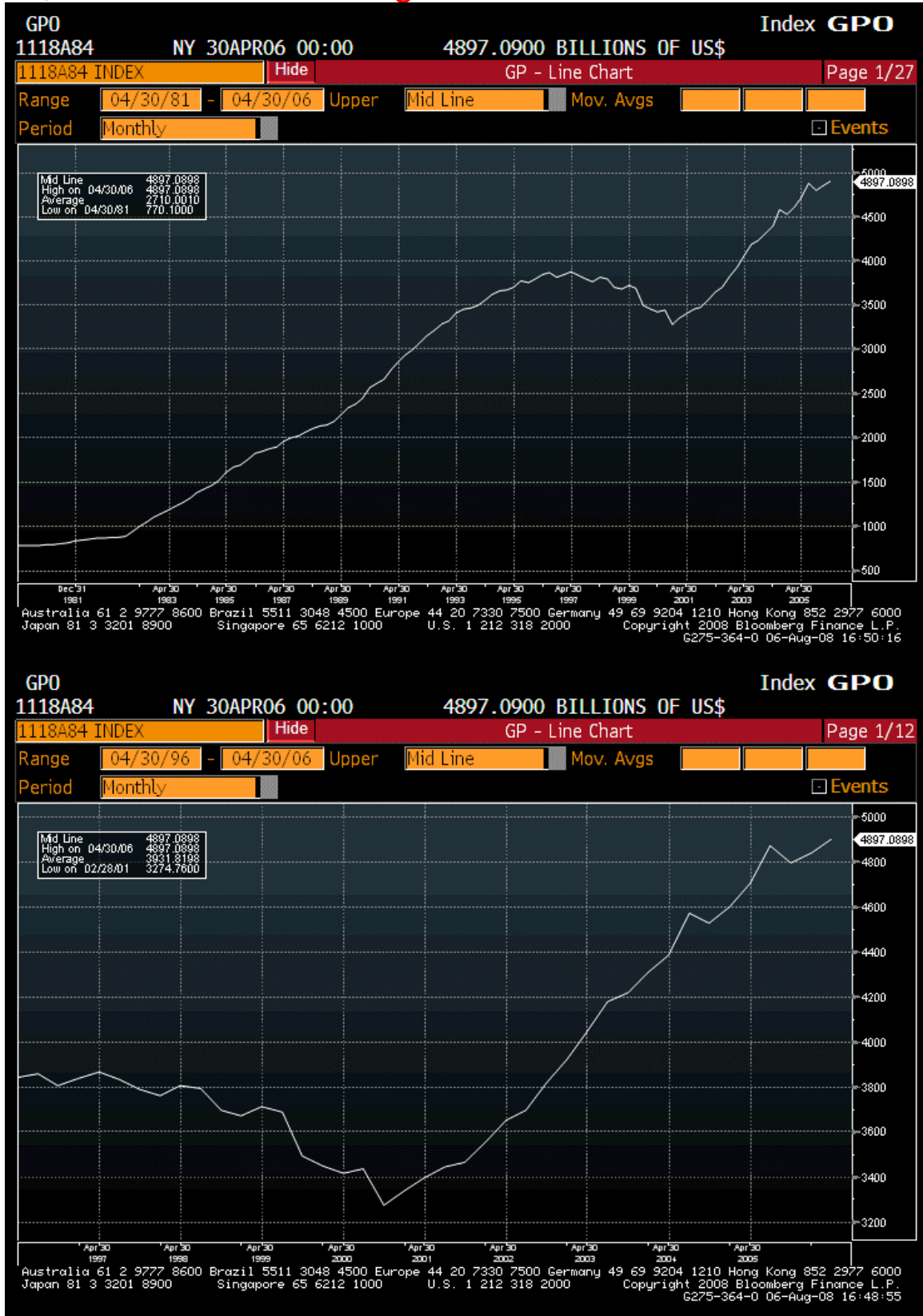
As follow-up to the charts of total U.S. federal government debt that were published last week, and which were correlated to the political administrations in power at the respective time periods, I promised the following graphs of total U.S. federal government debt. As opposed to waiting for the regular September report, due to the past week's action that made this interim report necessary, they are published on page 5.

The first chart dates back to the end of the 1980's and, there, one can see a **5-wave third-wave** commence at the beginning of the nineties. It was in response to Greenspan's brainstorm after the crash of 1987.

The move consumed much of the decade (1st chart), before going into a wave-4 correction, which ended in 2001 with the incoming Bush (I strongly advise correlating the charts and commentary of this report with those that appear in last week's letter). As I wrote, for those who can think for themselves, there is much to be gleaned from the fact that wave-5 of 5 lifted off BEFORE September 11, 2001.

Note the second chart on page 5, and please note that both the massive wave-3 of the nineties, and the wave-5 of this decade each sub-divide into clear 5-wave sequences, although I have not made these movements evident by clearly enumerating them, as I had done with the Dow's top which was illustrated/enumerated in Elliott terms.

So, what does a concluding wave 5 mean???



The conclusion is that money will be printed, without the creation of new debt. That is right: debt repudiation by the world's "reserve currency", which is printed by the only government capable of blowing the world up.

And the upshot of this is financial disaster, economic meltdown and, of course, war.

YEN (CURRENCIES)

"The Yen has bottomed and its secular bull market will now resume with this next cycle move."

The comment above is also taken from last week's report, and it was no less mistaken than the short-term views on gold and silver. As with the precious metals, the Yen has broken down (Dollar/Yen chart below: up) in the short-term, but should find resistance only a bit higher than here.

So, the Yen will out-perform gold, which will in turn out-perform silver. Therein lies the pecking order by which these three should bottom and reverse.

No matter what, never imagine that anything has changed, as regards the longer terms of these patterns. If you doubt that, please revisit the commentary and charts above, as regards the U.S.' total federal government debt.

Due to the fact that nothing has changed regarding the long-term trend of the Yen, its positive effects on domestic equities are also unchanged. This will attract investment into Japanese securities, and while this remains a forecast, so was the forecast for the Yen's reversal something that seemed to take forever to materialize.

However, in the short run, the effect of the recently declining Yen is, obviously, negative for the portfolio valuations of Japanese stocks. Again due to the fact that the long-term trend remains intact, one is well advised to stay invested in Japanese securities, whether they are stocks or bonds.



Sid Klein

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