

The Summer Pause That Doesn't Re-Freshen



August 3, 2008

JAPAN

Technical (Nikkei):
The song remains the same.

The Nikkei peak was identified at 17,000 – 17,500, before it overshot to 18,000. Then, I maintained the forecast for a move to 14,000, with the warning that this market has had the tendency to overshoot, particularly to the downside. Sure enough, the Nikkei flushed out to just below 12,000, at the top of the year.

The crux of the entire technical argument was that the last major move up to 18,000 was a "B-wave" (up-move within a correction), while this last collapse to below 12,000 was a cycle bear market concluding leg down.

The initial decline toward 14,000 (not shown below), which was identified in these pages, was deemed to have been the "A-wave" (first of 3-legged correction) of the bear market in Japan that began in April 2006. Based on that correct technical interpretation and analysis, we've been able to perfectly track the Nikkei, save for its overshoots.

The latter hardly mattered for professional investors.

The entire Japanese big-cap story was truly evident for those tracking the Topix, and the banking index, in particular.

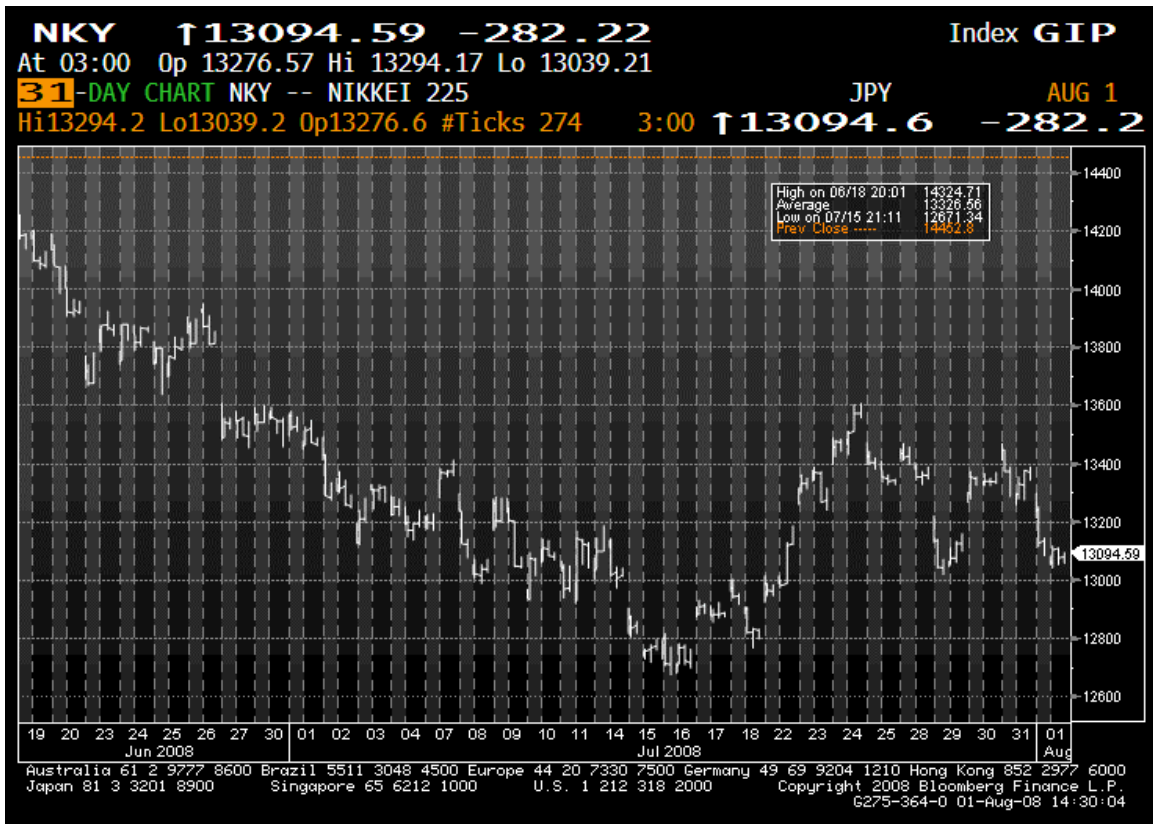
The 2-year Nikkei chart immediately below suggests that this index will continue to out-perform, and that the new cycle bull market toward 22,000 or so will be confirmed by the break over 14,000, in my view.

There will be a world of greater opportunities in Japan that will have taken place and taken off beforehand, far less affected by the Dow and the international big-cap and Dollar dependent stories.



The 31-day chart of the Nikkei below gives me an idea, in conjunction with the daily 2-year price pattern immediately above that the Nikkei may correct net sideways for a bit, but that one shouldn't really expect any significant damage from here.

Be certain that there are amazing stories developing in Japan's real world, which, in fact, can be found among its individual domestic equities.



Domestic equities:

These equities have been in a world of their own, influenced largely by the Yen. For the most part, this is an analysis that has yet to be borne out, though.

The major Yen reversal was a market view that took forever to have vindicated, and this will have been the same story, as well. The upshot, then, is that baskets of Japanese mid-cap value stocks will dramatically out-perform the Nikkei.

Aided by the Yen, the same will hold true for smaller stocks, but they will lag, due to the greater damage there over these past 4 years. It's been a long wait.

Be certain of this: Just as I wrote of the Yen (5 Yen and months before the peak, I admit), this will happen, and investors will chase the most undervalued and under-owned group in the world, on a quality-adjusted basis.

Key stocks are 40% - 50% off of their lows and indicating in every way that a period similar to 2000-2002 has finally begun. For now, this is

mostly intuitive, however. The Nikkei collapsed to 7,600 from 20,800 during that period, while the S&P got cut in half from 2000 - 2002. Meanwhile, however, the value stocks rocketed 200% - 300%. Again, not only will they out-perform, but the sophisticates out there may even create out-performance products versus the small or mid-cap indices, while using the tailor made basket of choice as one's basis.

Therefore, it is not only versus the Nikkei that value stocks will out-perform, but versus the small and mid-cap indices on which such equities are listed, as well.

Lastly, in determining what is a mid-cap or small-cap, a "break" should be given to certain stocks that are now classified within the latter group, merely as a result of the past 4-year's carnage.

Strategy:

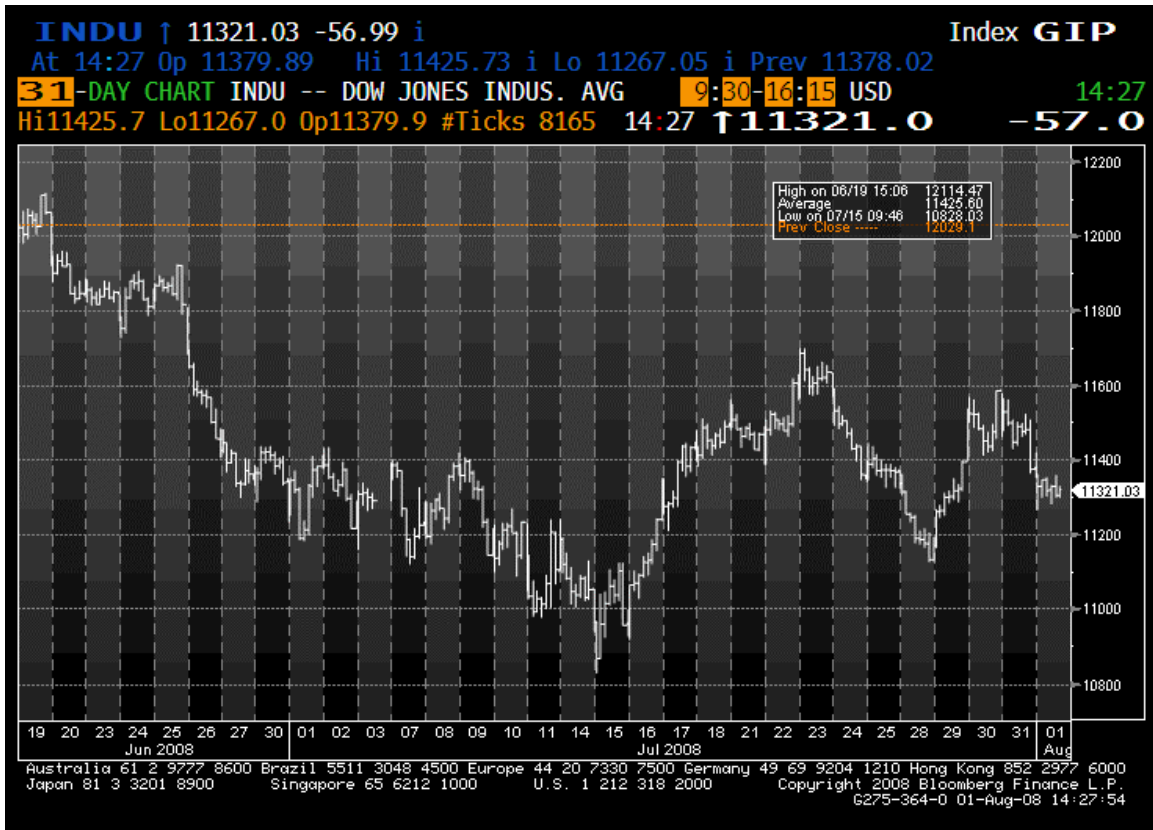
What to do, then? Continue to make Japanese stocks as the sole equity group in one's portfolio (to the extent that is practicable), and use same as the basis for out-performance in any strategic global plays. The latter should have defined risk and plenty of time. *Above all, in whatever the investor does, he/she must note the currency denomination of anything being packaged.*

NEW YORK

To the naked eye, there is a high correlation between the Nikkei and the Dow. However, it is in the longer-term patterns and the respective fundamentals that one can find the evidence for a sea change between the indices, and particularly between the remainder of Japan and the U.S.

I'll keep it simple in this issue: The American just bailed-out (printed) Fannie and Freddie to the tune of \$800 - \$900 billion. As I've explained before in these pages, by way of the support provided by the world's largest military machine, the U.S. continues to maintain the official world currency.

Therefore, they get to write-off people's credit card debt or homeowner debt, with the use of the capital of the worlds' peoples. Simply, everyone pays Americans' debts and for their luxuries. Know that once this becomes a fact that is more to the fore of the sleeping and disadvantaged world's communities, more and more will wish to disengage from the U.S. currency as its reserve.



The American plan has been and shall remain to enjoy its position as the world's largest property owners, by way of "free trade agreements". Simply, foreign assets appreciate with the debasement of the U.S. currency. Having creating win-win situations for the corporations (which also benefit from falsely gained economic trade advantages), the U.S. has implemented Kissinger's stated plan and objective to "win non-military" wars.

Ostensibly, the U.S. is pulling it off because global politicians are morons who do not understand the weapons being used against them, and thereby feel helpless to do anything about it. They don't understand what is or has been fired at them. The world has never known such a "non-military/ military" plan before.

Why do I venture into the political world now, when my reports have remained true to financial markets' commentary to-date? **Well, the explanation and second part of the above is found in the gold section.**

Within that section is the explanation to own, by way of yesterday's efforts; to dominate, based on yesterday's victories; to force, by way of yesterday's leadership. But all of Humpty Dumpty's printing could not stop GM's sales from declining 20%. Domination via the gains of biblical "unearned money" can only last as long as financial service companies can sustain the economy.

Can the U.S. really do it the Swiss way? Can they get by forever the way a country of 7 million does? One of these days, don't ya have to get a job?

VIX

The daily VIX trend channel broke down (2-year chart below), and then held at the lowest point within the neckline support range, at 15. The neckline's history is not illustrated here, as the weekly chart is not shown this month. That chart's moving average has beautifully defined the pattern. I will be published again next month.

As for the daily stochastic beneath the daily 2-year chart, or 31-day graph that follows it, the implications are for an advance in the VIX at this time. But my spidey sense is concerned that there's more bashing to come in the volatility index. This would mean lower premiums and some shakeout of the professionals, who are smart enough to understand that we are in a major bear market.

However, as I wrote so often over the years regarding gold, when there's a major trend in force, folks outsmart themselves and find ways of missing out on what should have been theirs, largely because they were not invested in strategies that would protect them from themselves.



(Please scroll down to next page.)



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 comes from last month’s report and the conclusion stands; this view is further bolstered by the price action in the metal over this past month.

Again, expect a final sub-division to take gold \$100 higher than here. The action over the past month suggests this final move will have been the last, where the 5th-wave will have commenced after wave-4 will have overlapped with the peak of wave-1.

In other words, the bottom of this last and just ended correction fell below the peak of the 1st move up (last quarter). Such an interpretation, by rule, implies that this next move up is the last one for this cycle.



Could the move be stronger? Yes. This would suggest that we have only completed wave-2 off of last quarter's low. Then, the potential would be to above \$1100, rather than \$1000 - \$1050.

Strategy:

For many, it will finally be time to scale back half from a fully invested position, which itself represents one-half of one's entire liquid wealth. I will consider which currency into which to move such funds.

The strategy for sophisticated hedge fund investors would be to use delta, calendar (time), price (vertical) spreads. With the first corrective shot being a quick and dirty \$100 down, the strategic opportunities will be exciting. Remember, I have been nothing but bullish since the 1st-quarter of 2002.

Now, I caution investors to ignore the extremely bearish news on the Dollar that will prevail at gold's peak, particularly if hay is made of Fannie and Freddie, or anything else of which the market is presently aware.

The use of the calendar aspect of the spread will mitigate the risk of the concluding move up being potentially stronger than what my

preferred scenario presently contemplates. The out-of-the-money (OTM) delta aspect will allow one to hedge much more than one would for the same capital, while making up for the concession implied by going OTM.

Kissinger's Printing Press

The next two charts are self-evident in their significance and interpretation. They are yearly charts that illustrate the warlike planning in the U.S.' use of the currency to achieve the aims of economic and political domination.

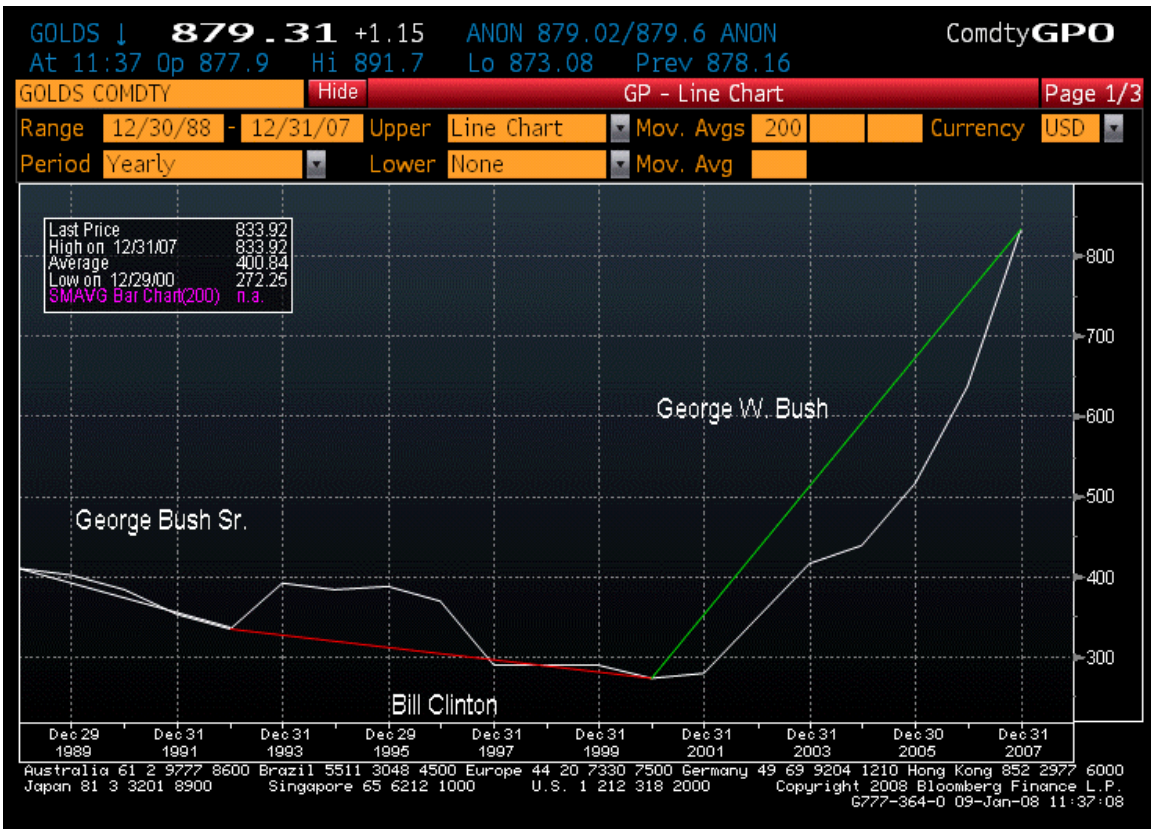
I could just as easily have shown charts of U.S. indebtedness, which skyrocketed from \$2 trillion to 5X that today. No mistake. By design. The politicians didn't "accidentally" fire cruise missiles into those Baghdad hotels where the journalists were staying. They were surgical strikes...and the journalists never returned, except for the CNN rookies who were handpicked for being easily manipulated newbies.

It's all related you see, and the political considerations contemplated here are all going to become market considerations, as universal anguish turns to rage. Food will dominate the stage and, yes, there is an extremely profitable angle here.

For those who care, when viewing the chart of US indebtedness, one will see that the dramatic spike commenced BEFORE 9/11. Hmmm.

We'll view that chart next month.

(Please scroll down to next page.)



SILVER

Same as gold, this metal will now lift off, to \$21, or \$23 under the alternate and more bullish scenario, which is contemplated in the gold section. Simply cross-reference. Either way, enjoy a nice move immediately ahead.

Strategy:

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 31-day daily silver chart that follows may be of use to those who would employ such a strategy.



YEN (CURRENCIES)

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

ASSET ALLOCATION

No change.....again.

If it isn't broken.....

50% gold

25% Yen

25% Swiss Franc

For the non-provincial, on a risk-adjusted basis, since 2002, SKC has consistently provided the best performing and safest asset allocation.

Over the past 6 years, my asset allocation went from 25% gold to 50%, when gold crossed \$500. At that same time, I dropped the Euro on which we had enjoyed spectacular returns. Allow me these adjectives for what were really just bond holdings, where the play became the currency.

Whether we are discussing a fiat currency or gold, this is still the case.

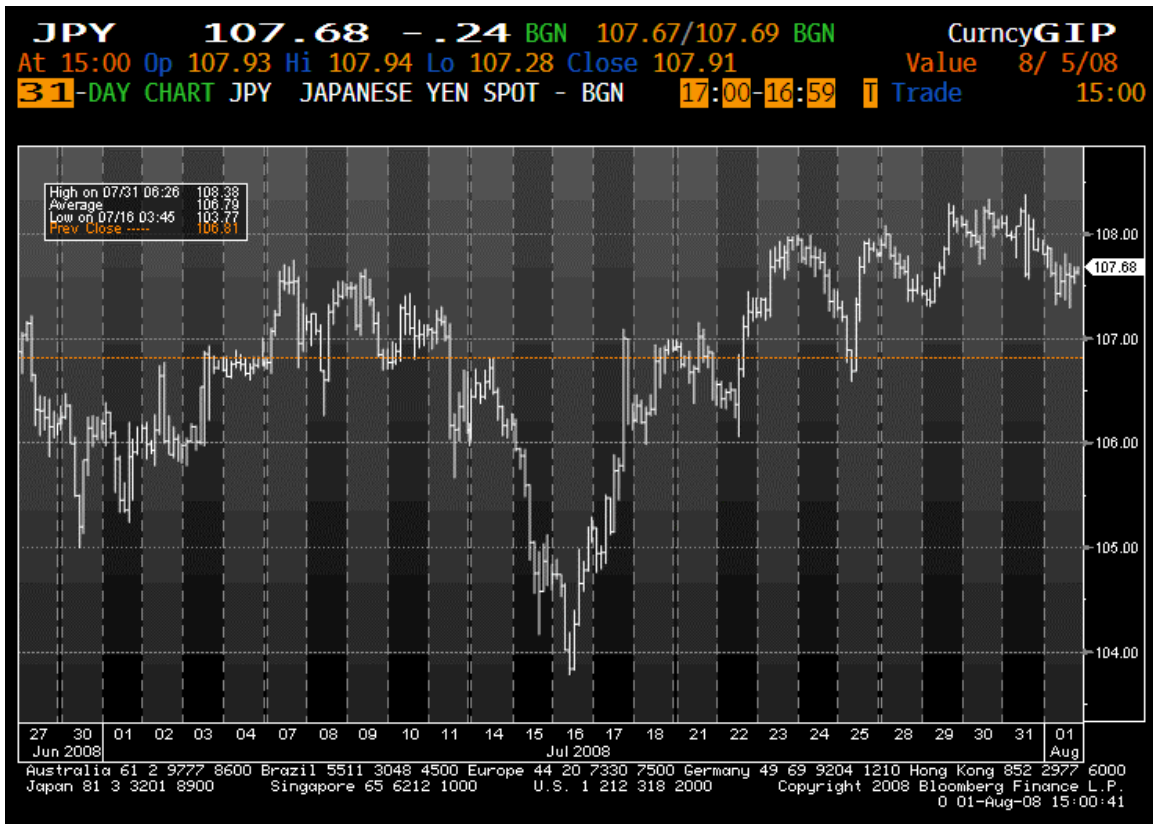


The 31-day Yen chart that follows offers a closer look at the short-term rollover of the pattern seen in the daily 2-year Dollar/Yen chart above.

So, gold and silver take off now, as does the Yen.

Make your first coffee Monday a good one.

(Please scroll down to next page.)



Sid Klein

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