

29? 73? 87?



August 05, 2007

JAPAN

Real Estate:

Nikkei Net Interactive Hong Kong reported that Japanese land prices in 2006 had their sharpest increase in prices in 15 years. The across-the-boards gains are as meaningful as the very sharp percent increases. The recovery is both broad and deep.

At the beginning of the decade I was in Tokyo where I met with those who had the privilege of parceling off large tracts of Japanese commercial property for 35 cents on the dollar. How?

They were the privileged that had bought the paper for 10 cents on the dollar! There was room for everyone to make money, not the least of whom being foreign investors with less potential of such safety for the potential at home. This was a gimme.

My thesis for investors here was that the paper (property value) would ultimately return to par. So, who cares if you paid 3.5 times more than the seller had because you'd be able to do the same, only after a longer holding period. The sellers' returns were as fast as they were great.

The secular bull market in real estate is in full force, as forecast in 2003 at the low. I forecast the lows in the above-mentioned paper before that because the market discounts some rally by overshooting on the downside. In other words, the parceled off property was dirt-cheap, as part of the bank bailouts and re-organizations. No more. Except compared to the future.

Stocks:

Corporately, Japanese profits shot up sharply last year and at superior growth rates than had been anticipated a year earlier. While I forecast such strength in 2002 for this period, I also [wrote some months ago](#) that the Nikkei was preparing to stall and fall and that this was consistent with the fact [that even after such a banner year as 2006](#), managers were loathe to speculate on their growth for this year.

A recent CNBC interviewee was told by the interviewer that the Nikkei has under-performed and he failed to point out that that depends on what starting point one chooses. The Nikkei is in a secular bull market against the Dow since 2003 (ratio chart not re-printed in this issue), and I've commented that the correction in the Nikkei versus Dow chart is coming to end, but was also something very interesting, when noting how it has been falling worse than the Dow from short term highs.

When a market makes a new high as part of a countertrend move (corrective, rather than primary), the ensuing decline begins swiftly and sharply. Meanwhile, the topping process of the peak of a primary move – such as has been the case in New York – is usually complex and drawn out.

[When the Dow turned, the Yen did as well, along with stories of the unwinding Yen carry trade \(see Yen below\).](#)

The Nikkei, Dow and Yen are all lining up to provide the basis later this year for a long Japan-favourable countertrend performance versus New York. The bottom for Nikkei/Dow was 2003, but mid-cap Japan has been in a strong up-trend since the beginning of the decade. Presently, a correction in those stocks that began in 2004 has been winding down, now in time, as well as price. Separately, it is no accident that Shanghai bottomed at the same time about 3 1/2 years ago.

The mid-cap Japanese stocks are themselves off-cycle to the Nikkei. All of this taken together makes Japanese domestic stocks the safest way

to invest in the world today, as was the case from 2000-2002, while stocks everywhere were collapsing.

As major Asian centers and other key international equity markets suffer, favour returns to Japan and the companies that comprise most of it.

Nikkei:

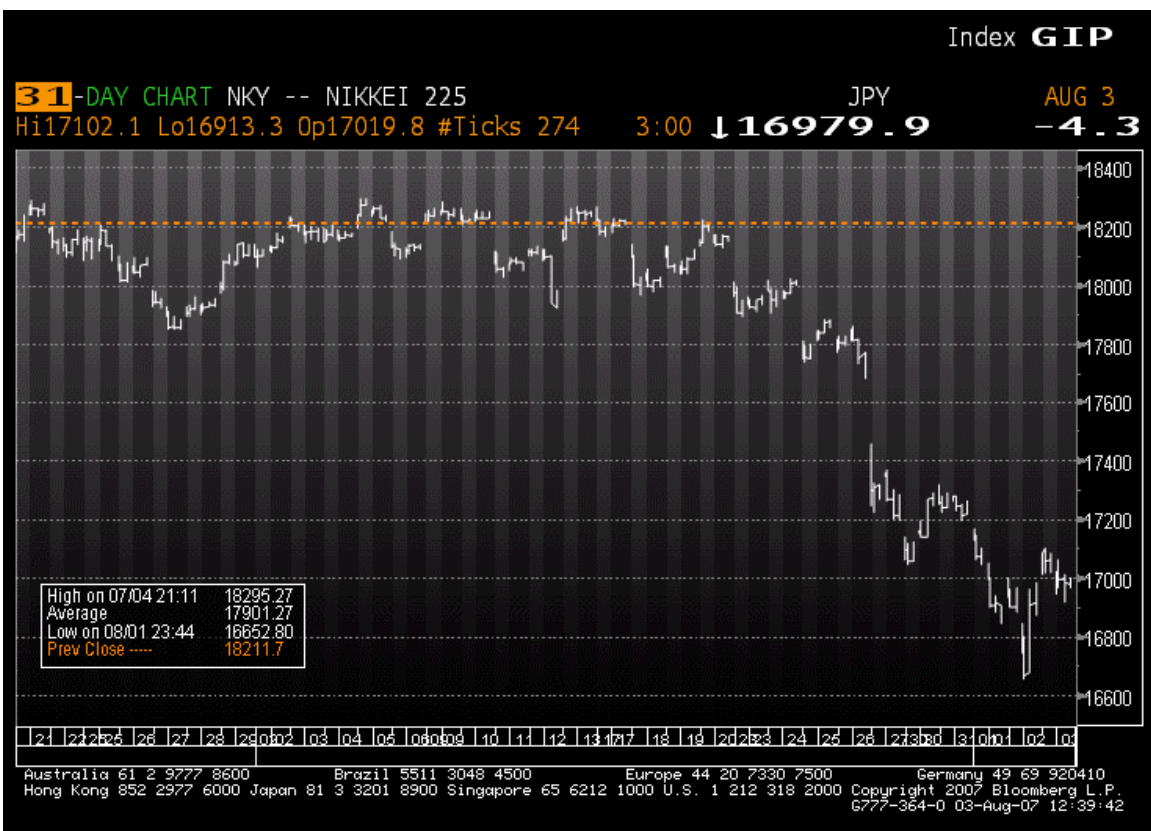
I reiterate and summarize that I believed and believe that the recent new Nikkei highs were part of a countertrend and corrective period, which began last year in the 14000's, and that I expect to conclude with a smash toward 14,000. In all this, the Dow begins a secular bear market and which then feeds the misperception that the Nikkei is in the same cycle. But the fooler will have been relating this Nikkei peak with that of the Dow. The latter is primary, while the former is corrective.

The future for which one must [get ready is the mirror image of the 1990's: The Nikkei will make higher highs and higher lows, while the Dow makes lower highs and lower lows.](#)

My reports warned that the Nikkei could smash quickly to below 17,000 based on the speed of the last time it smashed at the end of February, as evident in the [following chart](#).

The [pursuant chart](#), however, is only a 31-day look and like so many charts today, there are 5 waves down being completed; this would indicate an approaching bottom. Sometimes, however, such 5-wave declines are wave-1 set-ups to a much bigger decline than what is evident to investors and media. On this score, please see the New York section. But, as far the Nikkei is concerned, I see little downside left in the short term, now that expectations for the very short term have already been satisfied, en route to somewhat lower numbers later.

Please scroll down to page 4.



Conclusion & strategy:

No multi-nationals. Yes to: value, mid-cap, domestic (Japan and the rest of Asia); accumulate Yen assets, from real estate to stocks. It's just like 2000 – 2002, except for the deeply discounted "distressed" paper.

NEW YORK

Dow Jones:

I have drawn several analogies for this market. 1929 Because the savings rate in the US has not been so low and actually negative since 1932. 1974 Has been a source of analogy for political and oil-related reasons. 1987 is always a winner when one wants to discuss the effects of leverage on stocks prices, with concerns about the Dollar and the feared loss of Japanese support for new bonds. For today, I threw in Nostradamus and impeachment, and housing's effects on consumer psychology...eventually.

Today, for New York to more closely resemble the Nikkei, we would be at 12,000 this coming week.

However, as I wrote above, I believe that the Nikkei/Dow relationship (ratio chart) is bottoming. If the low was just seen in that relationship with these recent collapses in Tokyo and New York, then the Dow can drop to 12,000 now.

However, if this is a bottoming month for the ratio, then the 12,800 – 13,000 area will indeed hold the Dow. We must watch carefully how any rally from there behaves. If there are any questions at any time from any reader, updates are available by simply calling or emailing, so as to not expect an interim report in order to act in a timely fashion.

I believe that the latter and higher area will hold and defer to a longer lasting and bigger rally. No matter what, to summarize a few less followed points, in the context of recent observations and arguments.

Psychology:

Richard Russell noted a long time ago that the peak is marked by long-time bears complacently waiting for "one more rally (because there's always been one)" to go short.

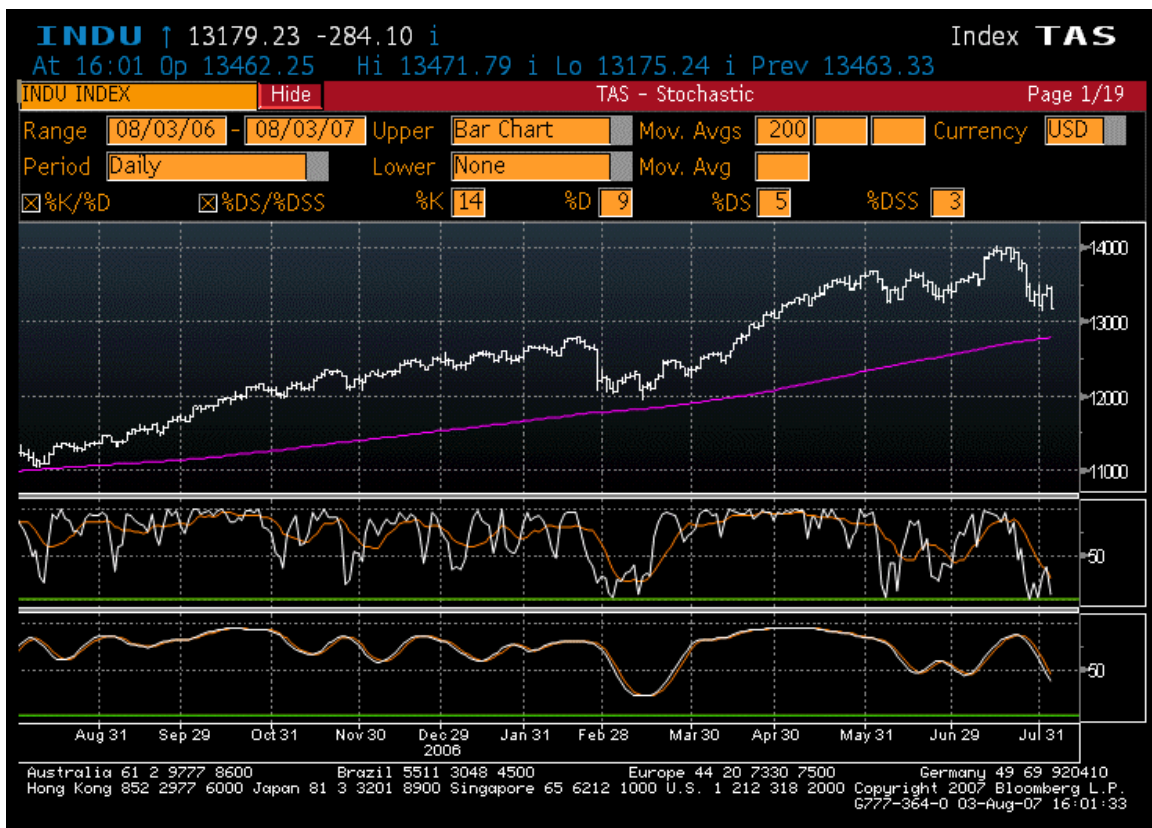
We have hit that point. As Robert Prechter wrote a long time ago, the pros believe it at the top, too.

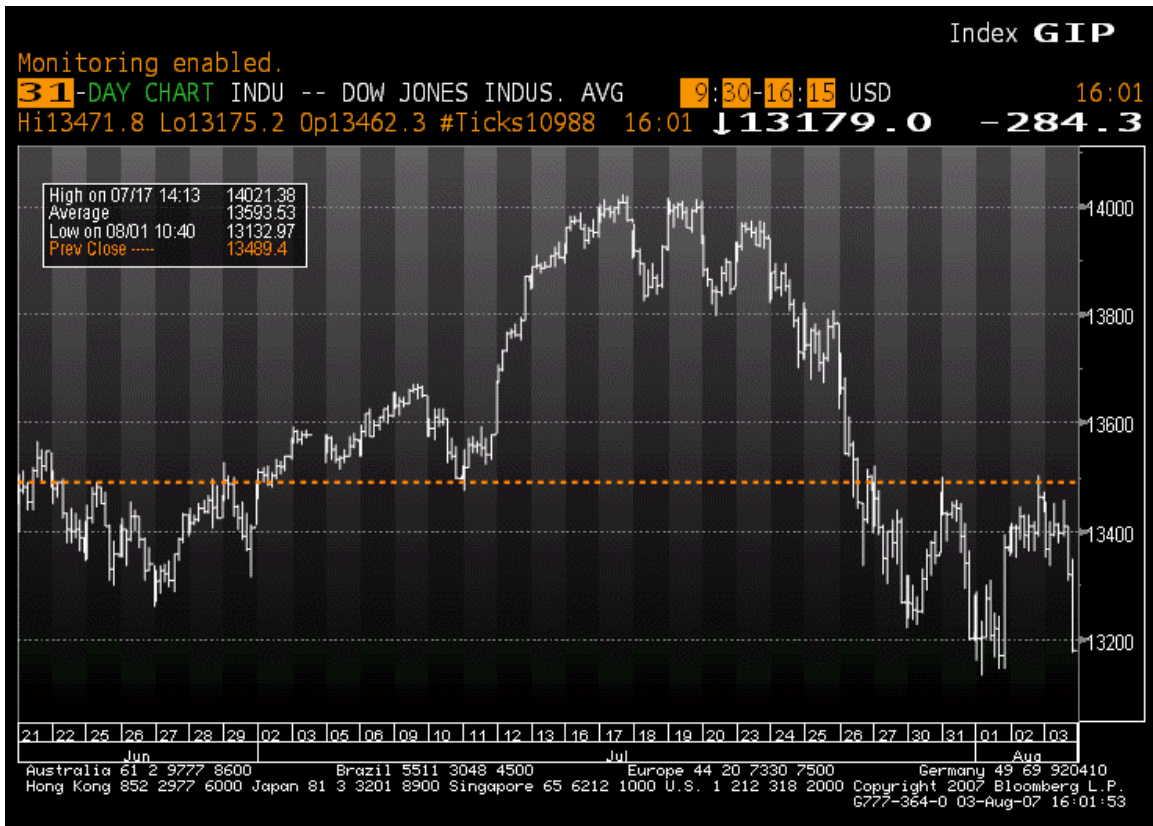
Benchmark (for me) December puts is en route to tripling from top to bottom. This activity in historical and implied volatility (option time premiums) are part of the landscape that I was looking for to more positively determine the bear market's initial decline, as being just that, by further noting the characteristics of the initial decline.

After the initial blast to the downside, the attitude en masse was, "opportunity to buy." Of course, a lot of that is just the Street suckering the public to unload stock. Either way, this psychology was/is bearish.

Stocks:

The following Dow chart reflects the completed 5-wave advance at 14,000, about which these reports have been providing a predictive play-by-play. A decline to and reversal from the 12,800 – 13,000 area could put a bullish stochastic in place for now, however.





Conclusion and strategy:

The Dow could drop this week to 12,000 or, as I suspect, reverse from the 12,800 – 13,000 area. Either way, the strategy is straightforward. When the benchmark put triples (when short term gains achieve the investor's purpose), profits should be taken. In these reports, the purpose has been to probe the peak in a logical way and enjoy an initial trade on a put that wasn't near term and that at least provided a 100% return. The goal is to build capital for the more meaningful gains in the next and larger decline in this now-commenced secular bear market in New York. At these put-sellers' market prices, there is a real risk of giving back gains, too, based on the present level of volatilities, both historical and implied. I'm sticking to plan.

OIL (special):

The following is from last month's report; a simple reprint does it, except for my conclusion.

"As oil turned at \$80, I called for lower prices, but then turned bullish as the subsequent lows were being approached. Oil turned at the 200-week moving average (1st below), at which point I again labeled the chart as having a final leg up left. I wrote often that a final 5th-wave

move in oil would probably proximate a double top. Now, however, I see a greater chance of new and higher highs than I had before.

"The following shows us how near \$80 now is, not to mention the strengthening momentum of the stochastic and oil's price."

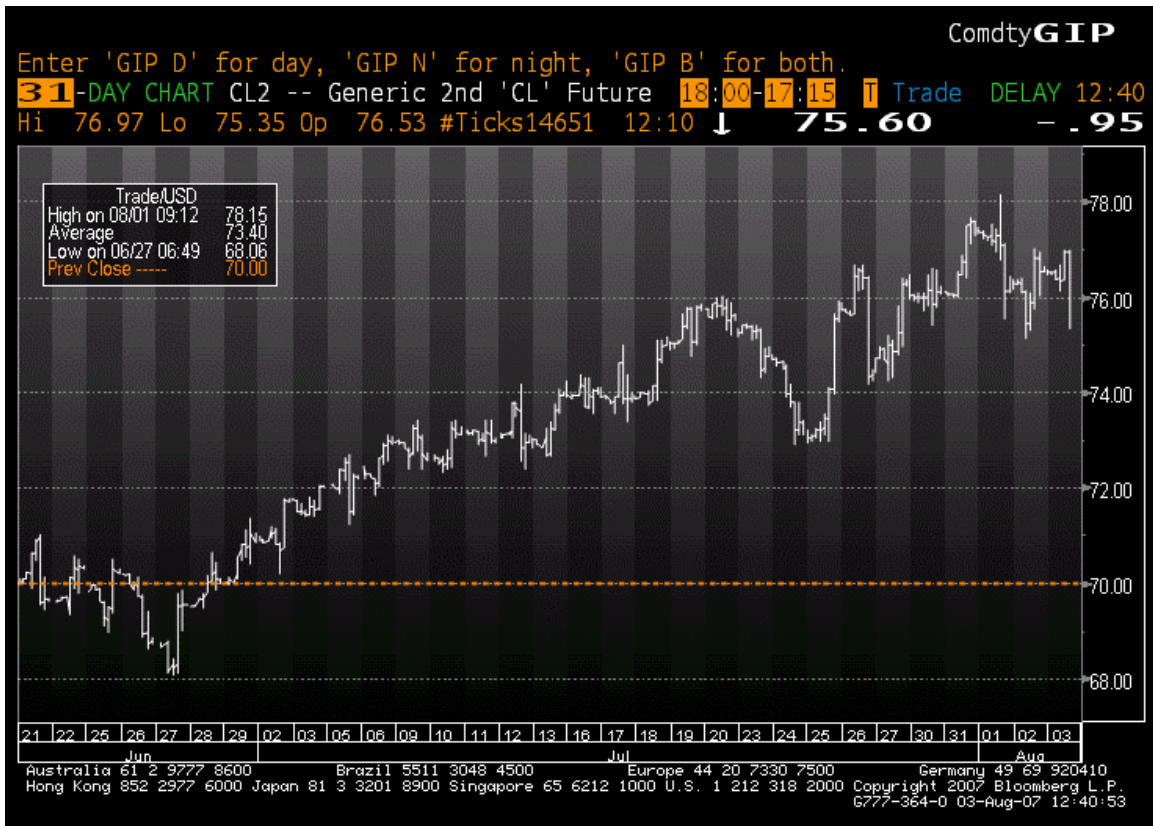


The daily chart above shows oil as being late in its advance, along with a stochastic that is consistent with a corrective period.

The pursuant 31-day chart of oil collaborates the possibility of some correction, with further stabs toward the high.

Strategy:

The topping process is not at all complete but, with so little to gain vis-à-vis my target from the lows, those who have been long for \$15 - \$20, should liquidate this special situation. The technical indicators suggest that the best is behind oil.

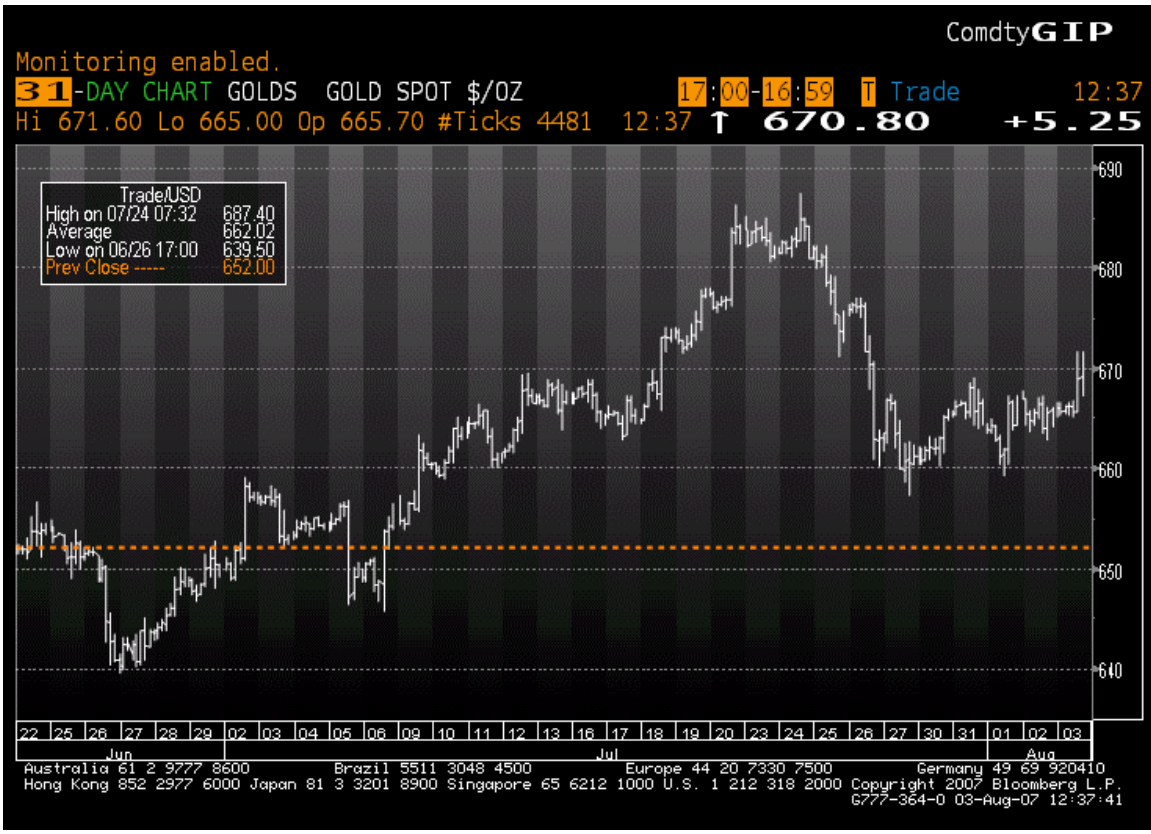


PRECIOUS METALS & DOLLAR (YEN):

Remember, as I have been writing for 10 years, there is a massive shift of wealth and power from West to East, with gold ownership is at the center of that shift.

Technical

I see \$660 - \$670 as the bottoming area for gold. While the contemplated flush out toward \$605 is always possible, my preferred scenario since the intermediate peak was made appears to be playing out and completing, namely, a net sideways action that trades around \$650, so that sellers can put gold and silver into the strong hands of governments and other major long term players. (Immediately below is a daily 1-year chart of gold, which is followed by a 31-day chart. The same charts for silver follow the gold charts.)





Now, the Dollar has the **Yen** to worry about. The Dollar has taken big hits amid an unusual mix of foreign currency performances. A falling Dow and rising Yen is consistent with the notion that liquidity for US stock investment has existed due to the Yen Dollar carry trade.

The first crack in that wall came when Japanese interest rates reversed. Then, the authorities conned everyone into focusing on how slowly positions could unwind, since rate hikes would be gradual.

I have argued that this has given smart money a chance to get out and, sure enough, New York's sharp and swift decline was linked to the undoing of carry trade positions. There's a global assets game here.

To reiterate: When unwinding gets going and stocks start to fall, it will be like everyone trying to get through the door at the same time. I reiterate too that this is unfolding in this present time period.

Technical

The next chart shows a swift correction from the low in the Yen at 123. Support for the Dollar/Yen is at 116. The daily stochastic is rolling over. Consistent with patterns everywhere, the pursuant 31-day chart reflects a pattern that could be concluding a decline for the short term.

Please scroll down to Yen charts.



Strategy, Conclusion & Asset Allocation:

Gold and silver should be held 100% long, since drops would likely hold above \$640 and \$12.40, respectively. My attitude is that the risk on the whole for buyers is on the downside.

100% Long Yen and Yen-denominated domestic stocks, within allocations. The Swiss Franc has been the best performer among the *real* paper currencies, while gold has done the best. The Yen, like the Franc, comprises 25% of the wealth asset mix, for capital gains in what I perceive to be Asia's de facto bloc currency, as I have written for nearly 10 years. Gold = 50% (or 40% + 10% for silver).

Good fortune to all,

Sid Klein

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