The Sid Klein Comment
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Domestic Japanese Stocks For 2007
Dow Mirrors 1999 Nikkei
Precious Perfection

December 3, 2006

JAPAN:

Fundamental

NikkeiNet News reported that following five consecutive months of new records in the balance of net assets held in stock investment trusts (i.e. mutual funds), that figure crossed 50 trillion Yen for the first time ever.

I have been reporting on the fact that the retail public never got into the bull market, neither since the general market bottomed in 2000-01, nor since the Nikkei made its low almost 10,000 points lower than its ensuing and to-date peak, in April 2003. The public money is almost exclusively in the hands of investors who are over 50 and who do not need the money to live, yet are more likely to possess a penchant for value. They are the ones who identify with Japanese company names.

Fukui has indicated great confidence in his economic forecast, in describing the positive aspects of seemingly worse economic news. This went along with my view but another look also revealed that the proposed legislation, that has undone the money-lenders' stocks, is also what has many very concerned. The performance of these companies has a high historical correlation to consumer spending. Reports indicate that a decline below a 20% lending rate cap for them could also cause a hit to GDP in the neighbourhood of .3%.

Summary:

- When the Nikkei falls, a lot of money is made available, while mid-cap value stocks take so much less capital to move them.
- Never have investment trusts had so much money.
- That money has come in from those with the money. The retail investor, the over-50 public, is finally joining-in. The exact opposite of New York, Japanese money will only buy domestic stocks, starting after the calendar changes.
- Investors who finally start to buy stocks, don't stop shopping for durables and services, etc. And the young have had a great deal of capital made to available to them, and the amount passed on to them by "living inheritances" will only increase. The Japanese have about $11.5 – $12 trillion in savings.

So, where to invest, is the question. I felt that 2006 would mark a cycle low. When I called a low in the Yen, I felt it would be a good time for domestic stocks that are set to bottom anyway. Well, the Yen did indeed bottom, but it didn't take off either. And, in the interim, domestic Japanese stocks were hurt, dragging down all fund performances, except for those tied to the Nikkei or Topix. Meanwhile, history will most probably write that it did bottom in 2006, but at the end of it. (See Yen below.)

I was shown once when in Tokyo that Asia has a 16-year cycle, and that that 's why I would be wrong in calling for lows in Japan earlier this decade. I explained that my forecast was reminiscent of New York in 1932, as markets tend to lead major economic lows by years. But it was his comments that stuck with me. This higher 2006 low in Japanese stocks should now proceed into a 2-year wave-3 eruption. Simply, this is because this decline since 2004 has been a wave-2. In other words, the first major correction of the first leg up of a newly begun bull market (2000-2001).

According to theory, the heart of the economic bull market should follow soon. A 16-year cycle (higher) low in the economy would does jibe with that. Prices bottomed about 5 years ago, as they were pathetically undervalued - thus **"discounting negatives that would not ever come to pass."**

Often, SKC reported on the extreme returns possible, with a mere return to neutral valuations. Today, extraordinary leverage results from the deep pullbacks of Japanese shares amid an advanced stage of bull market, coupled with an accelerating economy after this contained and temporary credit withdrawal by the government. The Nikkei will again be behind the rest and, by the time that the Nikkei gets to the 19,000 – 22,000 level in the next cycle, **DDOVS** will be nowhere near today's levels, with returns ranging from 100% - 200% over a 1 – 2 period for many.

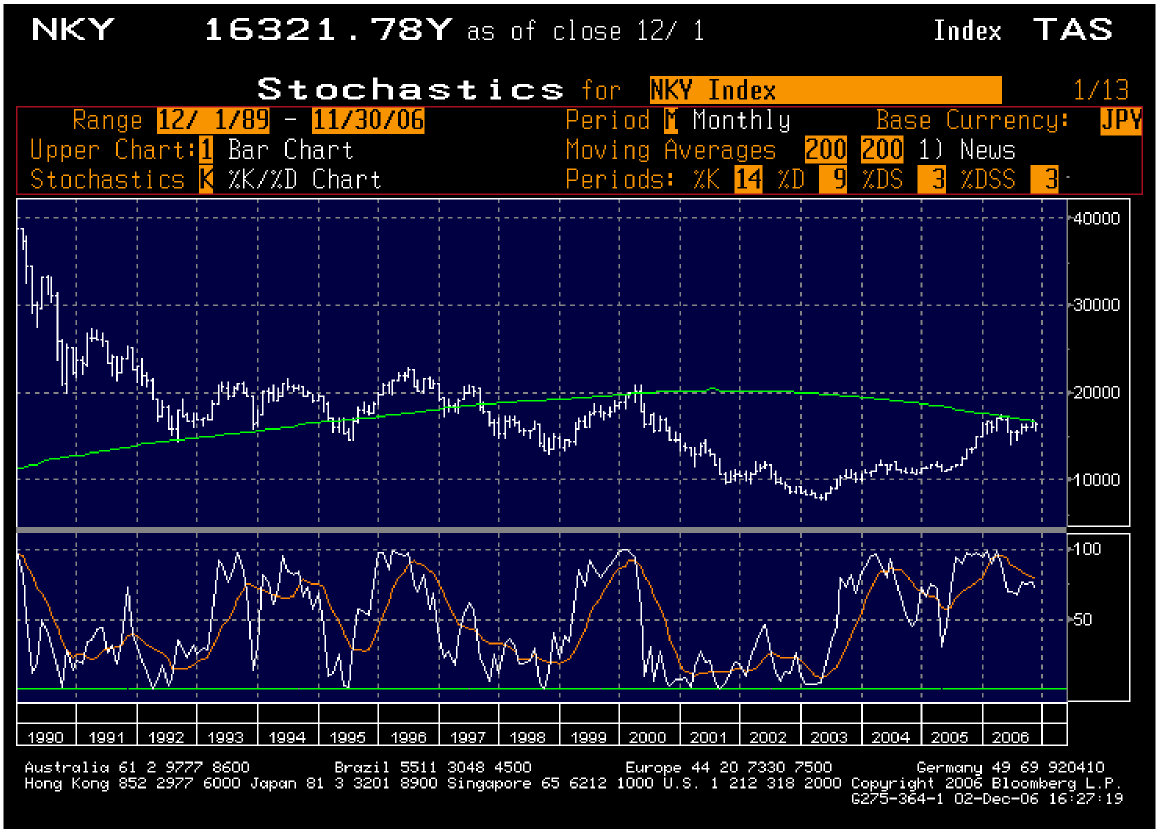
Below **(DDOVS)**, I've assembled seven companies, the economic and stock price successes of which are bolstered by domestic demand (though some can also be viewed as special situations). Right now, if one looks at the price of the money-lender stocks, it would seem that the psychology toward consumer spending is at an extreme. Where's the surprise? The positive surprise, often. In a bear market (in Japan), I went through a period of declining stock prices for a very long time, during which I learned the value of forecasting negative surprises. Now, I forecast positive surprises.

Technical summary

Regarding ALL charts, any referenced stochastic or moving average appears underneath it price chart. For instance, a 200-week moving average or stochastic would appear under the weekly graph of the index or stock. A daily indicator would appear with the daily price chart, and so on.

The following chart dates back to end of the bull market in the Nikkei 17 years ago, just above 39,000. The **200-month stochastic** is in a healthy corrective period, while the **200-week moving average (2nd chart below)** leaves plenty of room for a healthy re-test of 14,000. The latter moving average converges (profit-taking becomes exhausted) with the market, with the passage of time, as well as any decline in price. Like 2001, a spike below 14,000 would be a 1-day flush out (I'm thinking of an event in the US market).

Once the latter correction is complete, then all forces will be aligned together. In other words, **daily** and **weekly** indicators would support a breakthrough of the **200-month** moving average, which will necessarily usher in a new leg of the Japanese bull market. This next Nikkei decline will coincide with the beginning of the terrific (fast) smash in New York.


NKY 16321.78Y as of close 12/ 1 Index TAS
Stochastics for NKY Index 1/13
Range 12/ 1/89 - 11/30/06 Period M Monthly Base Currency: JPY
Upper Chart: 1 Bar Chart Moving Averages 200 200 1) News
Stochastics K %K/%D Chart Periods: %K 14 %D 9 %DS 3 %DSS 3
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Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 920410
Hong Kong 852 2977 6000 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2006 Bloomberg L.P.
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NKY 16321.78Y as of close 12/ 1 Index TAS
Stochastics for NKY Index 1/11
Range 12/ 1/99 - 12/ 1/06 Period W Weekly Base Currency: JPY
Upper Chart: 1 Bar Chart Moving Averages 200 200 1) News
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Nov. 5, 2006: "**The Nikkei/Dow ratio chart (not shown) has corrected into a buy zone that allows for a cycle rally to commence in that relationship (ratio), at any time. To correlate this in plainer language, in looking at the individual indices' charts (see Nikkei chart above), the Nikkei can fall back to test the 14,000 zone as the Dow suffers an initial and more serious correction, as part of the resumption of its secular bear market."**

Forecast unchanged, though it may be more bullish than what I think right now. However, I maintain that the 1st quarter will be bad for big stocks all around the world, so it's doubtful that I'll see it differently in January.

DDOVS:

In each case, charts follow the summary of valuation, fundamental and technical analyses, which reference the charts:

The position here is that everything in Japan is once again bottoming in the seasonal November – December period (foreign tax selling). Precise timing is the discretion of the investor. Some stocks bottom in November, while other take it right to the last week, when the volume is thin.

Gakken
Current assets-to-liabilities is about 1.6:1, with a price to book of .7. The company is also cheap on sales.

The company publishes educational books, magazines and educational materials. Last year, the company expanded into the nursing home business to capture the other end of the demographic. Remember, this lengthy 1990-2001 bear market coincided with a shrinking birth rate and a revolution in the manner that young Japanese women "plan". This directly affected Gakken and, so, the company is a microcosm of the demography story.

Now, a major games maker went into a joint venture with Gakken, so that the manufacturer could access Gakken's database. More shares than what are outstanding turned over on each of two days as the stock soared. At the recent spikes, stock was going into strong hands. This is a stock in cyclical acceleration, to reflect the exciting possibilities at this well-financed company that's in all the right sectors.

The following **8-year weekly** chart immediately below shows how the stock has been making higher lows in an up-trend since 2001, while moving toward neutral valuation, coincident to business expansion. The ideal bowling formation that is perfectly defined by the **200-week moving average**, expresses a gathering of momentum. The next resistance after exceeding this year's high is in the 600 – 700.

But the chart below more clearly illustrates the "cleansing" of this stock and the fact that, even at today's prices, the stock is 1/10 its all-time high (1990). Moreover, the **200-month moving average** (long term, heavy indicator) is turning up, which is consistent with the acceleration pattern. In the intermediate term, this stock tends to bottom ahead of other domestic value stocks, and it seems to have done so again.

Tokyo Kikai

The company makes rotary offset printers for newspapers. The stock became a buyout/restructuring situation that went into play last year. Hence, the large swings (**1st chart** immediately below). Presently, it sits at long-term and neckline support on cheap valuation, along with superior financial health – which is what makes it a target. When the buyout-craze returns, we'll see. The government has been deflating credit, so it's a matter of owning value for value sake. This stock is one of the classic DDOVS, having fallen 90% through its bear market (**2nd** chart below). After surpassing this year's high, intermediate term resistance comes in an around 700.


M6335 JP ¥ C e317 -4 T --x--
Equity TAS
As of Dec1 DELAYED Vol 321,000 Op 317 T Hi 324 T Lo 316 T
Stochastics for 6335 JP Equity 1/11
Range 12/ 1/99 - 12/ 1/06
Period W Weekly
Base Currency: JPY
Upper Chart: 1 Bar Chart
Moving Averages 200 200 1) News
Stochastics K %K/%D Chart
Periods: %K 14 %D 9 %DS 3 %DSS 3
Comp/Trade/JPY
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High 03/24/06 548
Average 355
Low 11/22/02 195
SMAVG on Close(200) 337.2250
SMAVG on Close(200) 337.2250
600
400
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%K Stochastics (14) 20.57
%D Stochastics (9) 16.67
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M6335 JP ¥ C e317 -4 T --x--
Equity TAS
As of Dec1 DELAYED Vol 321,000 Op 317 T Hi 324 T Lo 316 T
Stochastics for 6335 JP Equity 1/13
Range 12/ 1/88 - 11/30/06
Period M Monthly
Base Currency: JPY
Upper Chart: 1 Bar Chart
Moving Averages 200 200 1) News
Stochastics K %K/%D Chart
Periods: %K 14 %D 9 %DS 3 %DSS 3
Comp/Trade/JPY
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High 10/31/89 2050
Average 629
Low 11/29/02 195
SMAVG on Close(200) 561.4918
SMAVG on Close(200) 561.4918
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%K Stochastics (14) 12.79
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Hong Kong 852 2977 6000 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2006 Bloomberg L.P.
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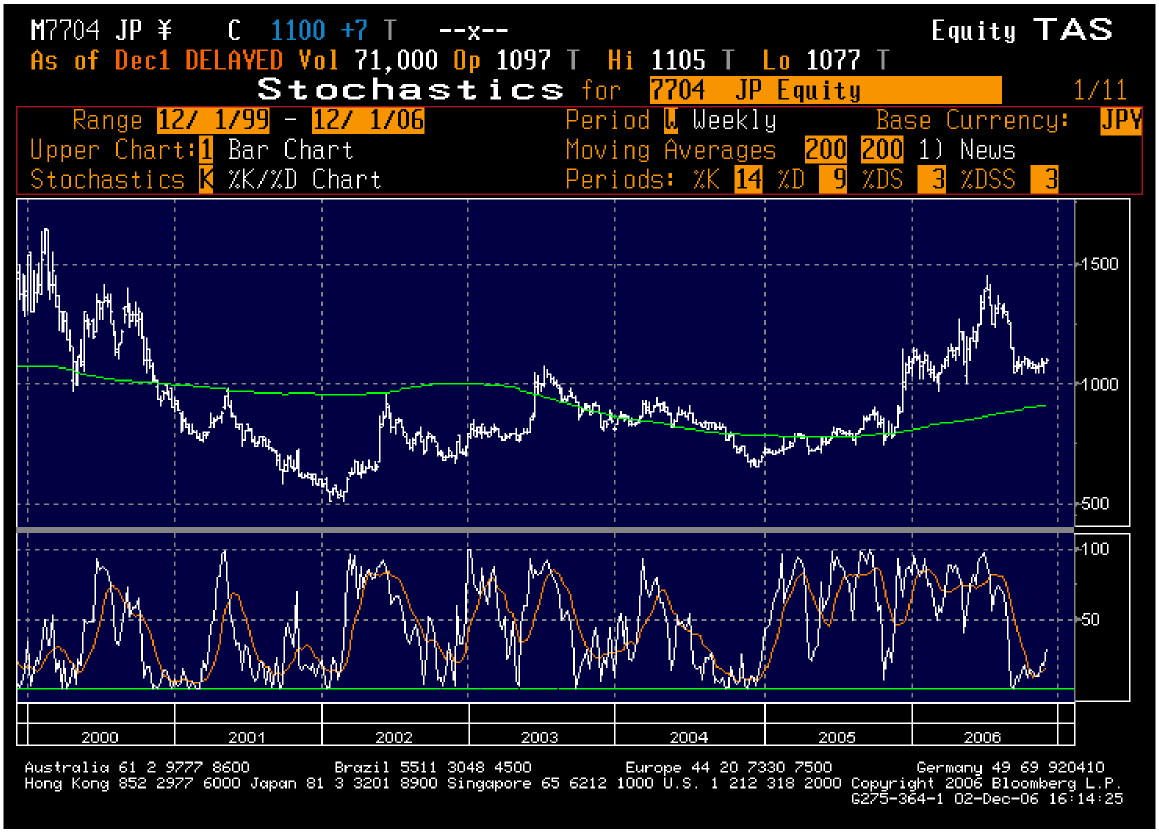
Shinkawa
Makes and sells the bonders that are used to make semiconductors. At only a 10% premium to book value and with current assets a multiple of total liabilities, this company offers an Asian play with subsidiaries in Eastern countries to market their products.

The chart immediately below shows the building of higher lows this decade. The adherence to the **200-week moving average** is a very positive sign as a new up-leg gathers steam. There have already been exciting stock rumblings in the industry, and a value approach to investing in the semiconductor industry is to invest with these kinds of financials and technicals. On surpassing this year's high, the stock would encounter resistance in the 3500 – 4000 area.

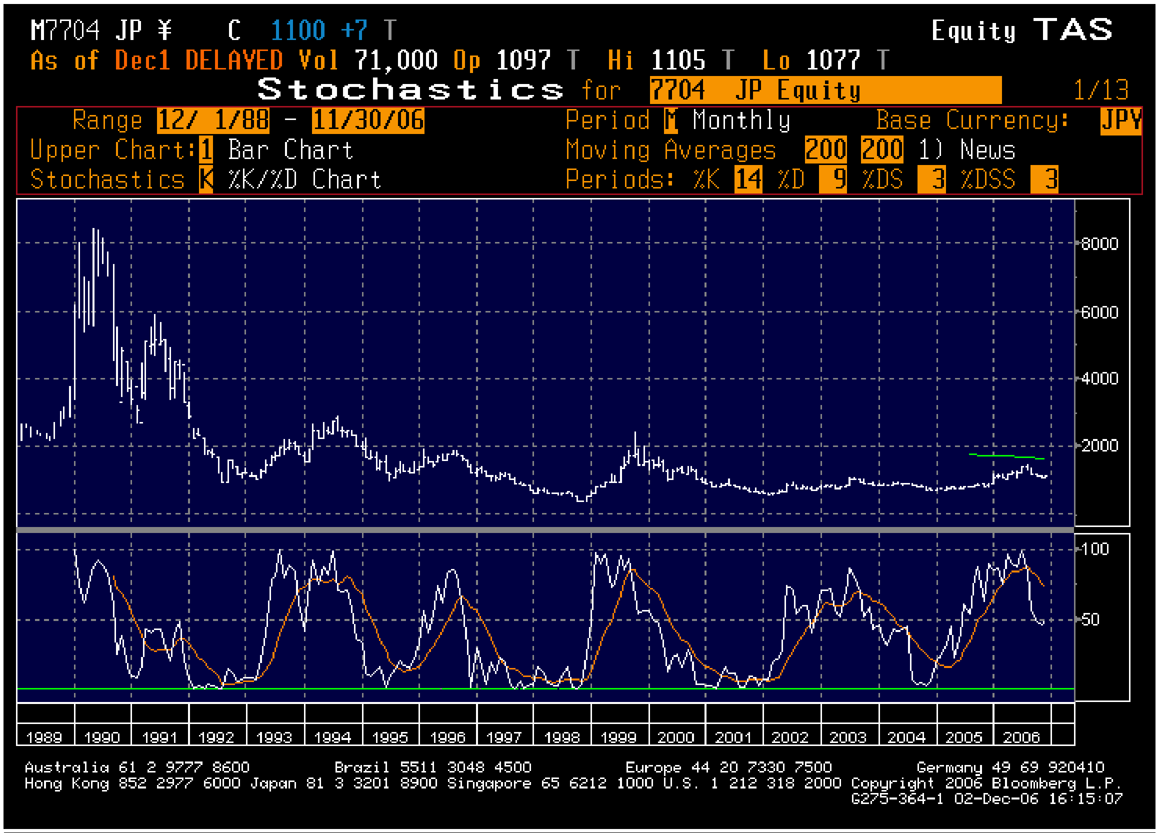
Aloka
Develops, markets and sells medical equipment to China, Korea and Europe. At .75 book and .68 sales, current assets exceed total liabilities by more than double.

The stock is on a DDOVS cycle, having bottomed 5 years ago, and making higher lows since, as is evident by the chart immediately below. After a 5-wave rally, the stock has pulled back to neckline support above 1000, where major **200-week moving average** support contains pullbacks, which are on negligible volume in this zone.

The **second** chart shows the lofty height of the stock in 1990 and the cliff from which it fell. It also shows that resistance for the next move is about 80% - 100% higher than here, as this year's peak is exceeded. This correction, too, is just about spent.



During this yearend period, it is wise to use the light volumes to accumulate. This is even more so the case with certain stocks, which trade lightly at cheap levels, such as Tohoku Pioneer; it follows the next Aloka chart.



Tohoku Pioneer
Principally develops, designs and sells car audio equipment. Trading around book value and a half of sales, current assets are about double total liabilities.

The stock sank to new post-2003 lows before **doubling** quickly on news of restructuring and a highest financial health score. The stock price is an aberration, as is the case with so many domestic stocks. Anecdotal evidence is the fact that one would have to run up the price a fair percentage to accumulate a lot of stock. After eclipsing last year's high, next resistance is about 100% higher than here. Like most, volumes grow appreciably with the stock price, but Tohoku is truly an exaggerated case of light volume at the lower end of its price range.

Dynacity

Develops and sells condos, manages and leases real estate. This is the year when the Japanese government started a new organism for moving the elderly from their rural homes to urban condos in a financially advantageous manner, so that they could be nearer to required facilities, while providing lodging for young families who cannot afford to live in the city (though working there). This takes off a lot of supply from the urban markets, and Dynacity's condo business is in Tokyo.

This is also the year when Dynacity collapsed from 40,000 as the Livedoor scandal hit, because that removed the management team that Dynacity thought would step in to solve their management woes. Instead, the stock has been **base–building in the 12,000 - 15,000 area (see 2nd chart below),** which one may view as **long-term neckline support (see chart immediately below),** after a rally from a few thousand up to 60,000, and then all the way back to here.

According to stock activity seen on days when there's been discussion or rumour of discussion of a new management team (buyer/investor), Dynacity will double on the news of such a resolution, before settling into a new range at 30,000 – 40,000, which is where the stock traded when they were thought to have a management team.


M8901 JP ¥ C 12970 unch Q --x-- Equity TAS
As of Dec1 DELAYED Vol 5,956 Op 12850 Q Hi 13090 Q Lo 12840 Q
Stochastics for 8901 JP Equity 1/11
Range 12/14/01 - 12/ 1/06
Period W Weekly
Base Currency: JPY
Upper Chart: 1 Bar Chart
Moving Averages 200 200 1) News
Stochastics K %K/%D Chart
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M8901 JP ¥ C 12970 unch Q --x-- Equity TAS
As of Dec1 DELAYED Vol 5,956 Op 12850 Q Hi 13090 Q Lo 12840 Q
Stochastics for 8901 JP Equity 1/10
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Base Currency: JPY
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Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 920410
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Nextcom
Provides system and network integration for Small Office Home Office (SOHOs), which are an outgrowth of Japan's economic Big Bang. As a service provider, the company develops, sells and maintains LAN peripherals. The company and its stock can be viewed as a value growth situation that is trading at 1.3 book value; it is cheap by other long-term yardsticks, with a top financial health ranking. Cheap on valuation, the stock enjoys extraordinary leverage.

Like Dynacity, the shares have been on thrill-ride, as evident by the chart immediately below. There, we see the stock resting on **long-term neckline support** and, in fact, the stock bears a number of resemblances to Dynacity. This includes the **base building we that see on the pursuant chart**, which reflects how the stock has developed support in the 30,000 – 40,000 zone. The long and shorter view of each company's stock patterns is quite similar, and they actually trade with a high degree of correlation

How can two stocks have such analogous qualities and pattern similarities while being in such different businesses?

They are both victims of special stories that made managers want to trash them in this year when the non-big-caps have done so poorly. So, with similar investor psychology infecting both, the patterns are similar. Nextcom overran reasonable earnings expectations, due to bloated optimism. **Like Dynacity, 300% gains over the next 2 years is a reasonable expectation, as business rebounds.**

<u>NEW YORK</u>:

Two months ago, it began to strike me that I was reliving the 4th quarter of 1989.

At the time, absolutely everything pointed to a final Nikkei peak in the first week of January 1990. News was piling up on the bear case, but it was all ignored. The single most significant analysis I had come up with at the time was that the market was going to go up, solely due to already committed capital. In other words, new events before yearend would not be able to stop the allocation of that money. The Nikkei peaked as soon as the calendar change.

This past September, an increasing number of managers were jumping the bear case and warning that the public had a trillion dollars in cash that they would have to now spend with the market being so strong. They were right, and there it was:

The “set-up.”

The message was that the investor at home should realize he’s an idiot if he doesn’t buy-in now. I had a sinking feeling that the market was going to peak in

December – not bottom in it. Since then, the Dow has rallied $1,000. Then there's yearend window dressing. The institutions pad their year and, with the Dow at its peak, fees are highest. Remember, if an index is at an all-time high, then, necessarily, it means that everyone's making money. This, in turn, generates bullish enthusiasm. The latter is derived from actions already taken, along with the emotions that drove those actions, and not those yet to be considered or taken.

I never base ANYTHING on political/military analysis. Market analysis is uninvolved for several reasons, both theoretical and practical. However, now we enter a time when no has motive to manipulate the market higher. A lower market in two years is bad for the Republicans, with whom a bear market would be identified.

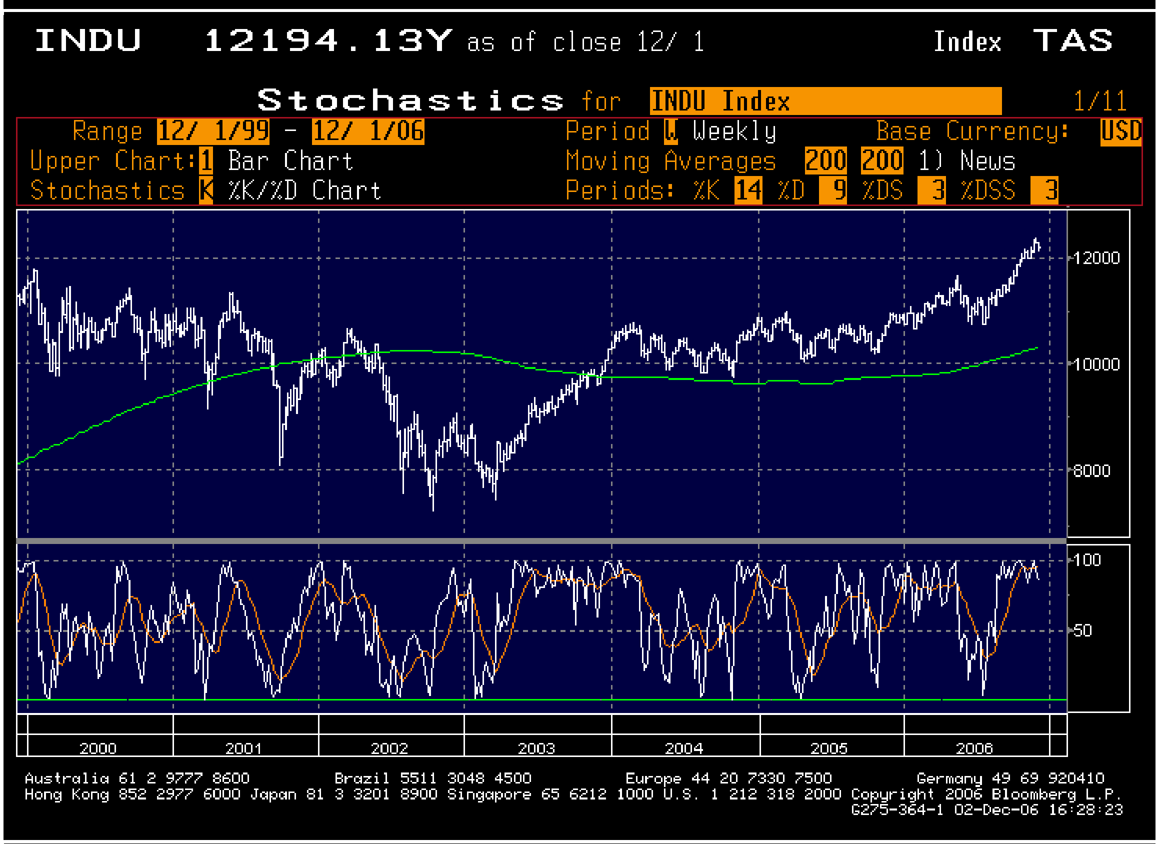
Technical (Dow charts)
By my interpretation, chart **#1** below clearly shows wave 3 ending (waves 1 & 2 were in the summer), en route to previously discussed final pushes upward for yearend. I think I'm back in gear with the Dow and it seems that (so no change in prognosis) wave 5 (up), the end, is in early January. In fact, wave 4 (down) is perhaps ending now. The daily stochastic usually diverges before a top. There is no divergence now.

Chart **#2** shows that the weekly moving average is very far away. When this happens, markets tend to get hit in order to converge to some degree. (Daily, weekly and monthly indicators each have their own "personalities" and purposes.) It also supports the observation that initial hits in bear markets are commonly 2000 points. The stochastic has turned down, but this is a useless indicator, because the weekly stochastic indicator is coincident (as there are no divergences, it is not a leading indicator).

Chart **#3** is noteworthy for it's indicators. The **200-month moving average** shows why I've raised my support target for the next cycle bear market in the Dow Jones to **8,400 from 6,500.** Also, amazingly, there has been no negation of the sell signal given by the monthly stochastic. Having been glued to rally mode, this indicator hovers under the ceiling of stretched possibilities. **The 1st smash, let alone the bear market itself, will therefore be violent.**

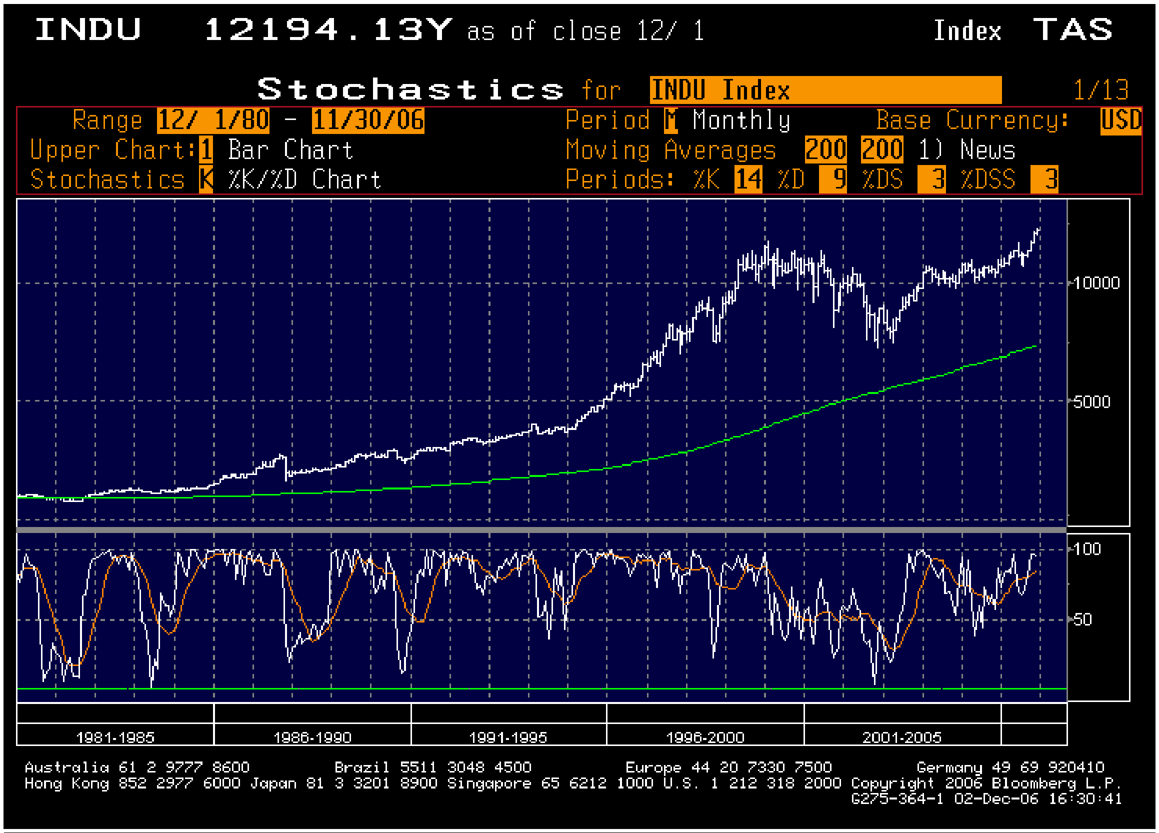
Finally, chart **#5** takes us back to 1980. A massive 5-wave pattern is evident. Still, there is some debate. There are Elliotticians who view this post-2002 move as a final 5th-wave sub-division. I still interpret the Dow to have peaked in 2000, and that this post-2002 move is, therefore, a massive wave-B. The point is moot, as regards what generally happens next. Under my interpretation, the whole thing (4,000 points of decline) could even end by September. What follows B waves (as opposed to a 5th-wave) is faster. **Also, please note the huge gap between the market and the moving average. I have never seen ANY market so utterly primed for a massive and violent hit as the Dow is right now.**

(#1) Daily 1-year chart followed by (#2) Weekly 7-year chart



(#3) Monthly 17-year chart

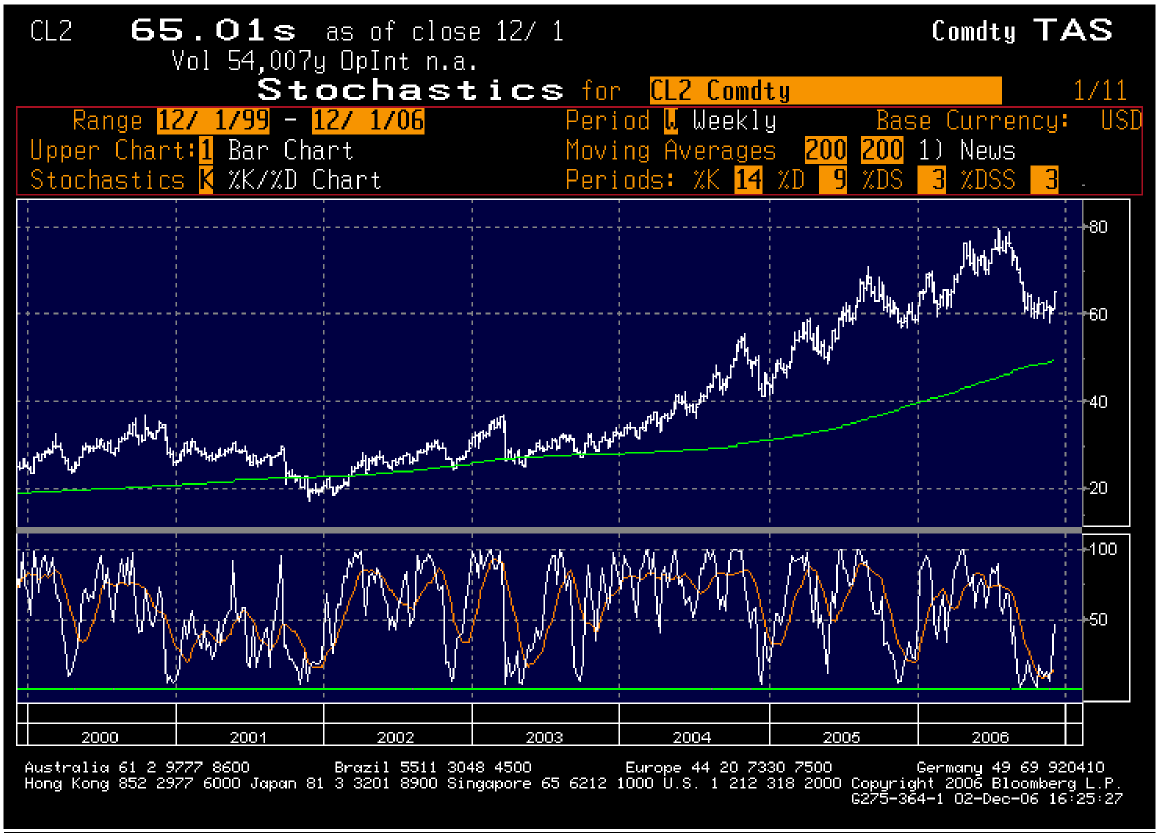
(#4) Monthly 27-year chart



OIL:

Oct 4, 2006: "In any event, oil tanked the morning after the most recent report was transmitted. The strategy remains the same unless oil touches $57, or closes the week below $58 (please see chart below)."

November 5, 2006: "Indeed, see the chart below, for the froth is gone and we're good to go."



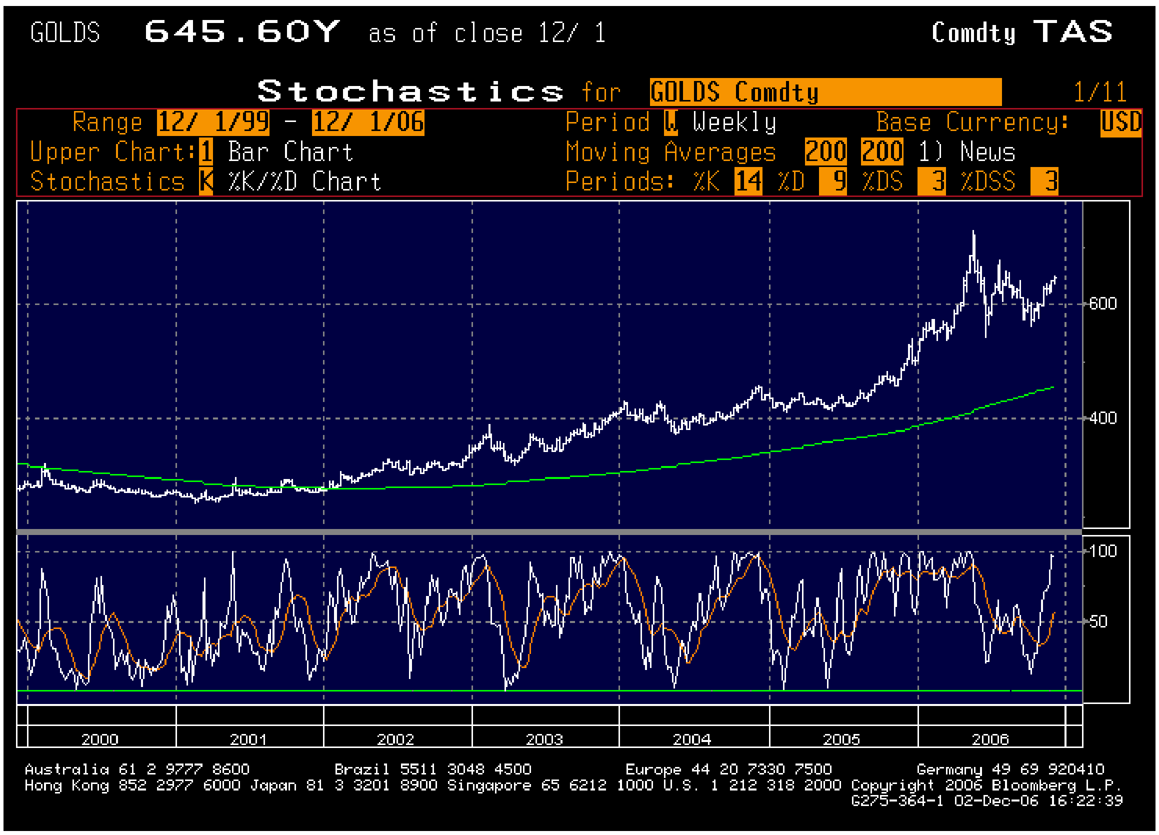
Prior letters forecast a sharp reversal from this low. The "stop" was $58 on a weekly close or $57, if touched. Due to the violence of the upside reversal, it never closed the week under $58. As for $57 if touched, that occurred with the nearby contract, but not the one tracked in (by the charts used) in these pages. In the top left hand corner of the chart, "CL2" means that when there is only a bit of time left to the spot contract, the one following it is used as a replacement contract to roll into.

In other words, one switches to the more liquid contract and follows its more efficient pricing. Anyway, however we slice it, this reversal was with the promised sharpness, which smells more like a bounce within a bear market, rather than the lift-off to the last leg of the bull market. Short covering does not make for good a base. We'll see.

Strategy
For those still long (by the skin of the teeth), stay that way. I had written that this rally should be worthwhile. Quickly the trade is up $4-$5. Given the difficulties with the trade, no one can be blamed for cutting and running. This is a side trade for us. And if my stops led to an exit already, then I assume a bad call. All in all: a close call.

PRECIOUS METALS & DOLLAR:

I wondered in recent pages whether or not gold could go into a fast spurt to $750. I still wonder. When I consider the question in the context of this grand secular bull market, or whether anything is going to get in the way of transforming this freight train into a rocket-ship, then I stop wondering. Moot points take up valuable energy.



***Silver strategy**:

Nov. 5, 2006: "As discussed with investors and readers this fall, how hard is it to watch silver go to $20 on 50% margin (a move that is already underway)?

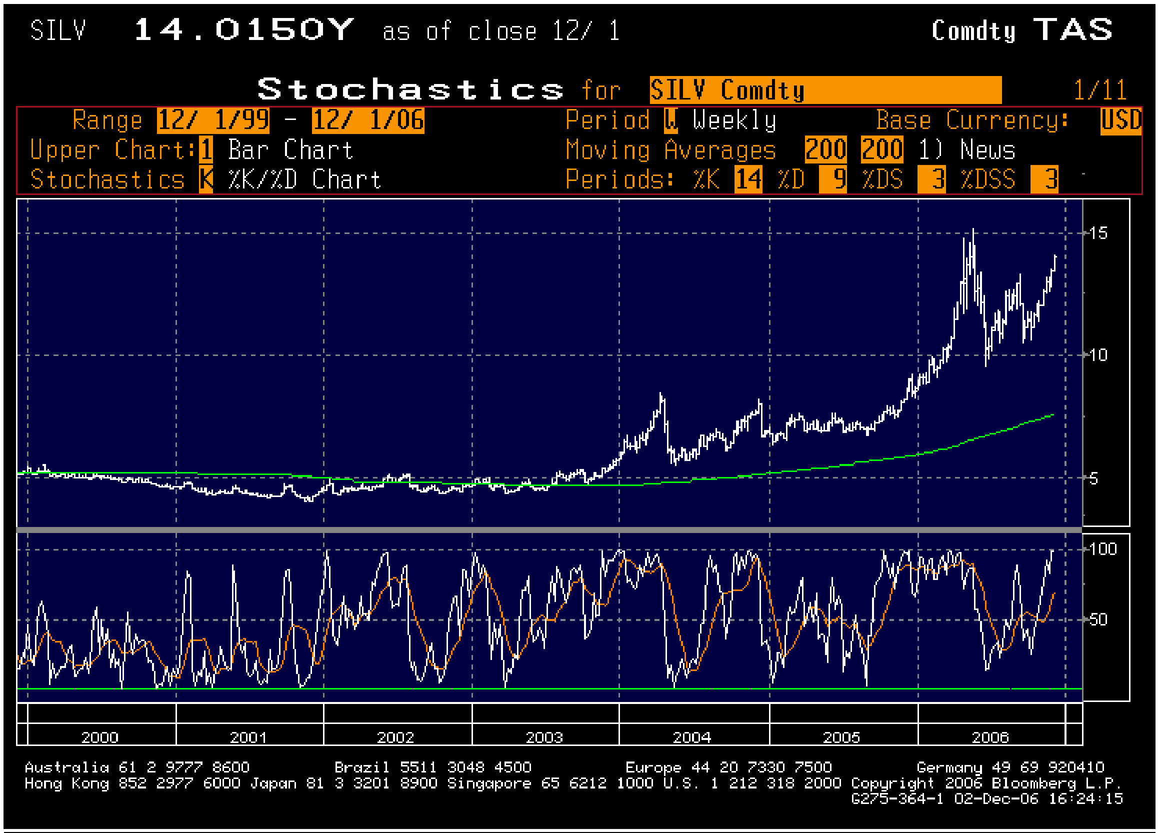
“Unless silver, far from maintaining its secular bull market, were to actually reverse and actually make multi-year lows and thereby confirm a secular bear market within which all this has been countertrend (the definition of absurd), there is an enormous low risk opportunity, by using as much as but/and only 50%.

“Supply shortage, unexplainable short interest and long-term momentum that cannot be broken: all describe how young this great secular bull market is.”

Well, well. How quickly silver has returned to its highs. As we know, the shakeouts occur to return the property to their proper holders, the strong hands. Regarding how to play it, please note the simple margin strategy above which, with good timing, is more efficient, less risky and potentially more profitable than leveraged precious metals equity. Certainly the risk/reward is better.

The daily indicators support a low as having been seen, indeed. However, the weekly indicators (underneath) suggest some backing and filling. **If the occasion presented itself in the upper $12.00 range, one could still have a very big year in silver by just using the strategy above**

Anyway, $4- -$5 is a long ways away, when SKC turned bullish in early 2002.



Golden Star
This is my special situation in gold. Not unlike its past, management has disappointed by not coming through initially, with what it ultimately does end up providing: higher output.

The 2nd chart below shows how leveraged the performance has been the past two months relative to gold, as it's under-performance perhaps gives way to potentially geometric gains, as we head into the New Year.

GSC (GSS in the US) has a history of this. This is more obvious in the 2nd (longer-term) chart, which follows immediately below the following.


GSC CT C$ C 3.69 -.06 T T3.69/3.70T 20x54 Equity TAS
As of Dec1 DELAYED Vol 487,788 Op 3.79 T Hi 3.79 T Lo 3.68 T
Stochastics for GSC CT Equity 1/11
Range 12/ 1/96 - 12/ 1/06 Period W Weekly Base Currency: CAD
Upper Chart: 1 Bar Chart Moving Averages 200 200 1) News
Stochastics K %K/%D Chart Periods: %K 14 %D 9 %DS 3 %DSS 3
TSE/Trade/CAD
Last 3.69
High 02/21/97 22.45
Average 3.9609
Low 02/02/01 0.37
SMAVG on Close(200) 4.6004
SMAVG on Close(200) 4.6004
%K Stochastics (14) 85.37
%D Stochastics (9) 52.03
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Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 920410
Hong Kong 852 2977 6000 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2006 Bloomberg L.P.
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GSC CT C$ C 3.69 -.06 T T3.69/3.70T 20x54 Equity TAS
As of Dec1 DELAYED Vol 487,788 Op 3.79 T Hi 3.79 T Lo 3.68 T
Stochastics for GSC CT Equity 1/10
Range 12/ 1/05 - 12/ 1/06 Period D Daily Base Currency: CAD
Upper Chart: 1 Bar Chart Moving Averages 200 200 1) News
Stochastics K %K/%D Chart Periods: %K 14 %D 9 %DS 3 %DSS 3
Dec Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov
Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 920410
Hong Kong 852 2977 6000 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2006 Bloomberg L.P.
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As you can see below, there is no change is our **Dollar** stance. We've got the right currencies and will not move. Life has gone into still motion for the Yen, to direct the markets toward an organized and orderly unwinding of the Japanese carry trade.

The long-term forces at play have not and will not go away. The Japanese economy and rates are in a bull market. The US? Not. As for the Yen, the Bank of Japan is going to raise rates, sooner or later. It would be consistent with the policy of credit tightening, unless the latter is being used to avoid doing the former.

I happen to believe that the rate cap limit for lenders has been discounted and that, in lieu of risking harming the economy amid sharply declining poll results, rates will rise to take the place of the worst cap fears for the moneylenders. The government doesn't want to stall consumer spending. It merely wanted and wants to stall it (over-heated markets, hedge funds, Yen carry trade unwinding).

Asset allocation:

- 50% Gold (or 40% gold + 10% silver) *****
- 25% Swiss Franc
- 25% Yen

- AAA debt
- Japanese domestic stocks only.
- Gold and silver equities, only to the extent that their inherent leverage obviates the need to allocate anything but a small percentage of one's portfolio.
- Long term) Dow puts (annual budget, 3%.

*** - If silver were bought on 50% margin as per the above strategy, then one's total portfolio, all things equal, would be 110% invested.**

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