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MARKETS' BOTTOM LINES FOR 2010

December 6, 2009

JAPAN

I have been warning that Asia has been leading North America in this new cycle, which belongs all to the bears. Japan has not been able to divorce itself from China and Korea, for example.

Here, I refer to the Nikkei, the popular global benchmark for Japan. However, this index is in a bear market versus other Japanese indices, as well.

Page 2 begins with the 10-year weekly Nikkei chart; it is followed by a 2-year graph. While the Nikkei did not make it to the upper limit of rally expectations at 11,000, the Dow did, at 10,400 (see NEW YORK).

Coming into this quarter, my concern was for the customary 4th-quarter Japanese decline, which is due to Western yearend pressure. The Nikkei's decline was less certain, however, as opposed to other indices.

Strategy

Note this past week's spike back above 10,000. This is a chance to escape. After New York's first wave of decline in the unfolding global financial crisis, "part 2," we'll revise the Nikkei's bear market, including its bear market versus other Japanese indices. Either way a triple bottom around 7000 appears likely in 2010.


NKY ↑10022.59 +44.92
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At 02:00 Op 10019.24 Hi 10022.59 Lo 9902.83
NKY INDEX
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TAS - Stochastic
Page 1/42
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Upper Bar Chart
Mov. Avgs 200
Currency JPY
Period Weekly
Lower None
Mov. Avg
Events
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%DS/%DSS
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%D 9
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13835.04
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Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2009 Bloomberg Finance L.P.
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Upper Bar Chart
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Currency JPY
Period Daily
Lower None
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Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2009 Bloomberg Finance L.P.
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CHINA

Immediately below is a 10-year weekly chart that found support at the 200-week (3-year) moving average.

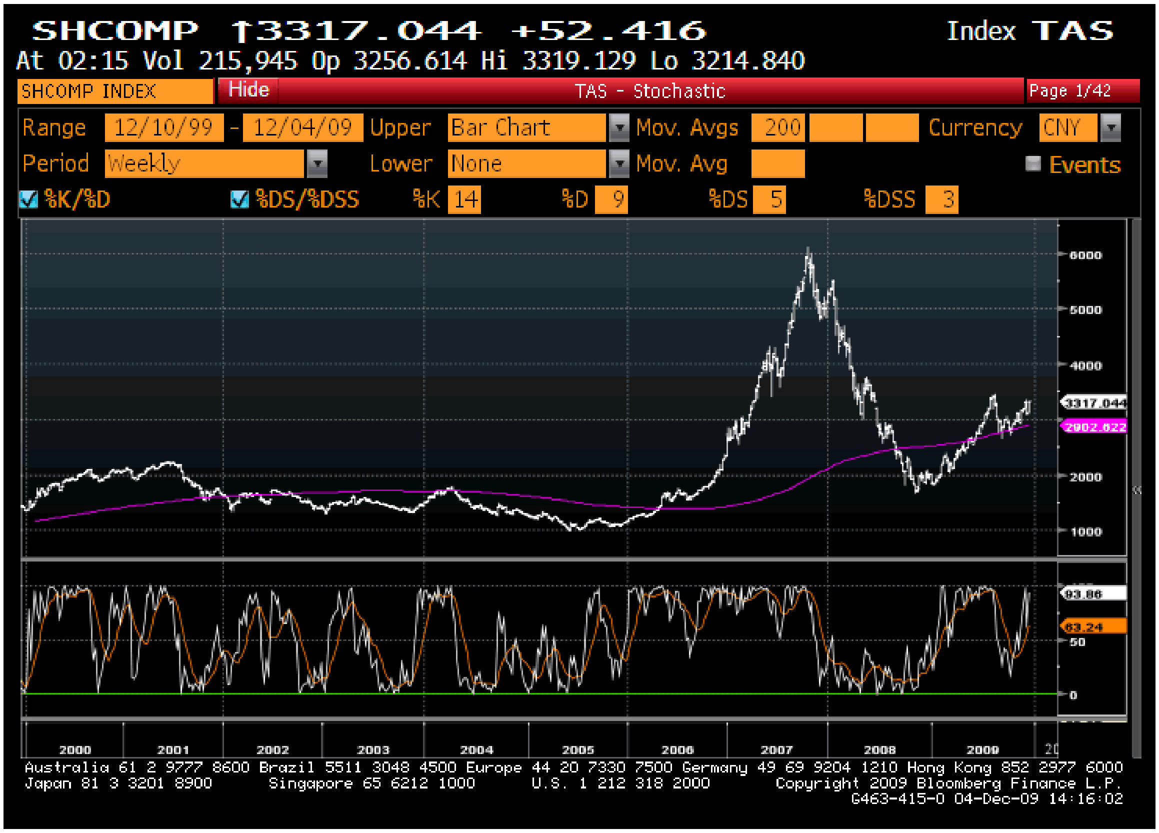
The 2-year daily chart of the Shanghai index can be found on the next page. It also found support at the (more widely followed) 200-day moving average.

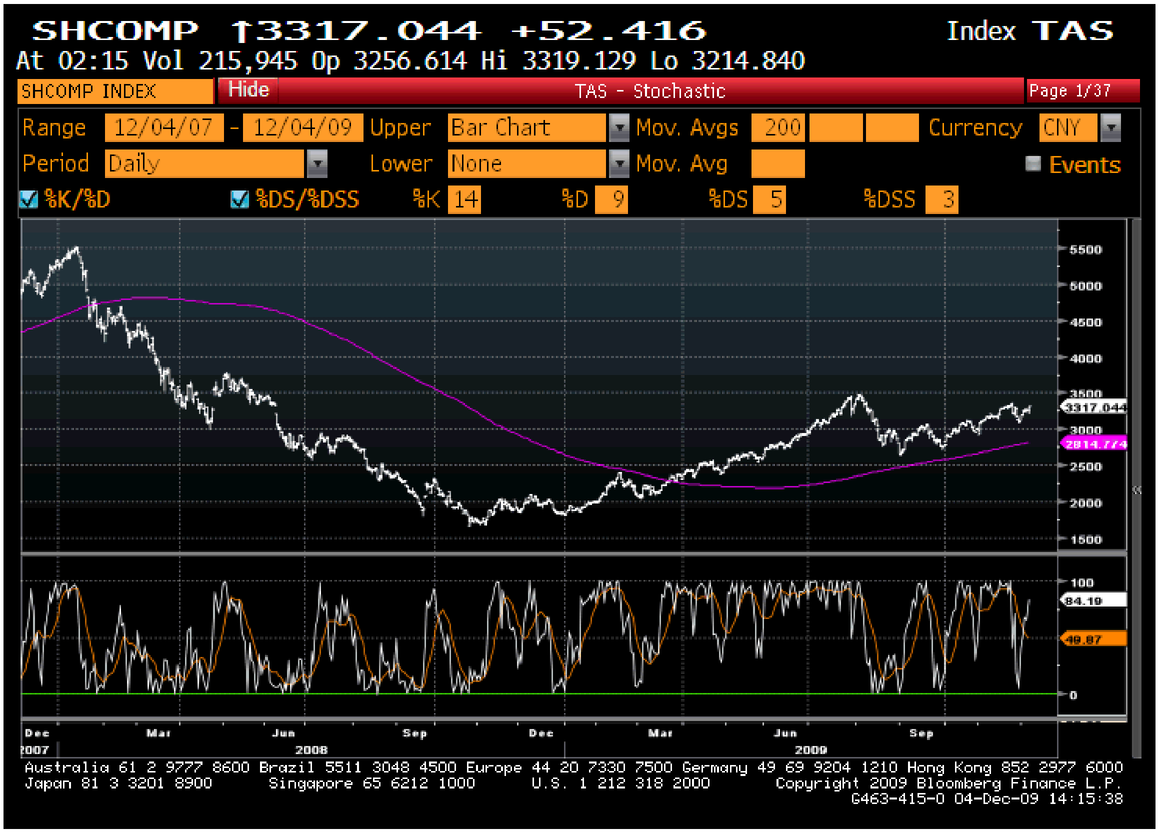
From each chart, it is evident why I had selected the 3500 area as my rally target, when the Shanghai index broke below 2000.

This index is off-cycle versus other Asian indices and may peak closer to the Chinese New Year.

Strategy

Either way, price-wise, this index is points away from its top. The timing of the peak may be when the tracker indices come onto line with it, but that's just an educated guess. Breaks of the moving averages could open up the gates to the downside. And what will Asian bourses do then?





NEW YORK

Are the last trickles of the countertrend "1931" Dow rally completing right now?

Very possible, but who cares? 10,400 on the index has been my "idealized" upside target, and the reversal in the Dollar could be coinciding with the turn in the equity markets but, as an old-hand at Prudential Bache taught me 20 years ago, never correlate markets; it just ends up confusing (see YEN, DOLLAR).

The 10-year weekly chart that appears first on the next page reflects a 200-week moving average that hangs like the Sword of Damocles above the Dow's neck...and throat.

It is followed by the 2-year daily chart which includes a 200-day moving average that is too far away for any bull's comfort, below Dow 9000.

Strategy

The Dow is rolling over and dangerously close to its tipping point NOW, in line with global market activity. 5000, give or take, awaits below, through 2011**. This next cycle, which is commencing NOW will take the Dow to the 4000-6000 area.** I believe that I have again nailed the Dow this decade.


INDU ↑10388.90 +22.75
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INDU INDEX
Hide
TAS - Stochastic
Page 1/42
Range 12/10/99 - 12/04/09
Upper Bar Chart
Mov. Avgs 200
Currency USD
Period Weekly
Lower None
Mov. Avg
Events
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89.89
50
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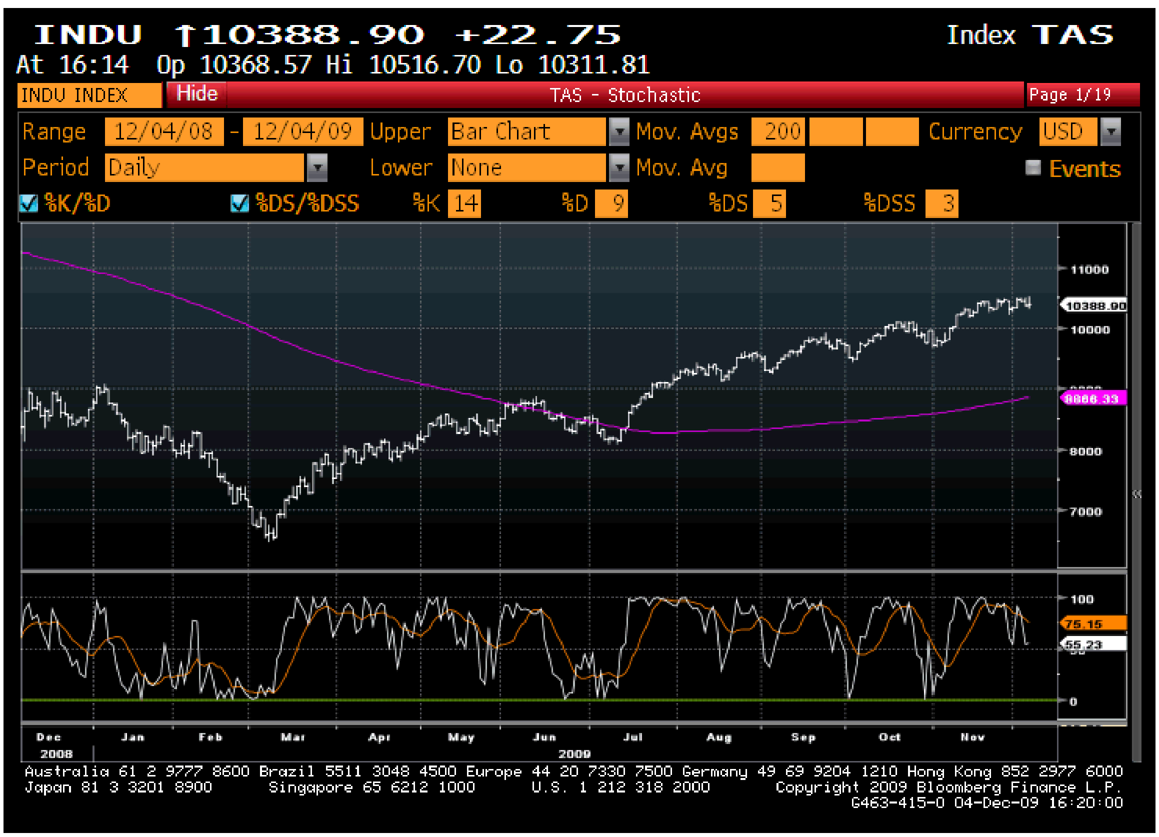
INDU ↑10388.90 +22.75
Index TAS
At 16:14 Op 10368.57 Hi 10516.70 Lo 10311.81
INDU INDEX
Hide
TAS - Stochastic
Page 1/19
Range 12/04/08 - 12/04/09
Upper Bar Chart
Mov. Avgs 200
Currency USD
Period Daily
Lower None
Mov. Avg
Events
%K/%D
%DS/%DSS
%K 14
%D 9
%DS 5
%DSS 3
11000
10388.90
10000
8886.33
8000
7000
100
75.15
55.23
0
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Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2009 Bloomberg Finance L.P.
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VIX

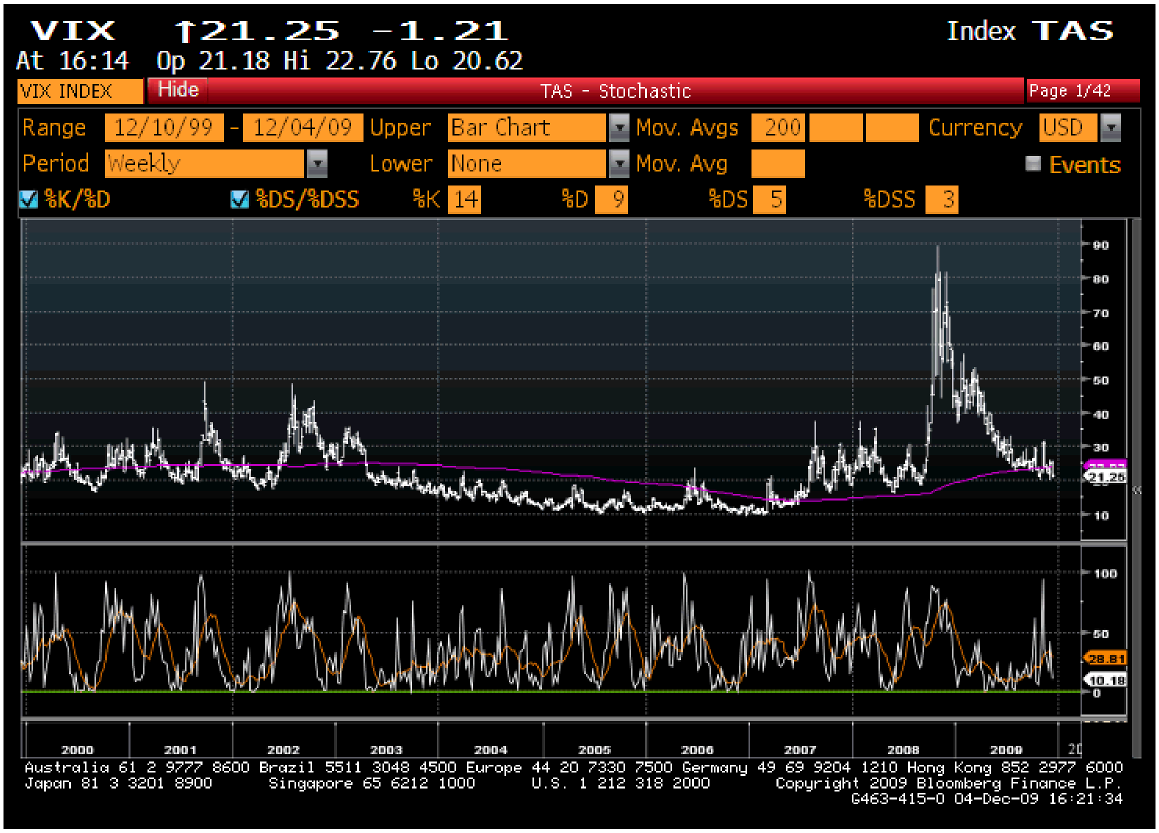
Page 6 illustrates the 10-year weekly and 2-year daily charts of the VIX. It is because we have seen a VIX level of 90, as well as Dow level under 7000 that it will be difficult mathematically for this index to get back to 90, but option prices are increasing, when related to corresponding market levels.

In other words, implied volatility has increased disproportionately to historical volatility. It also suggests that those short synthetically for the longer tern will enjoy positive double whammies. Unfortunately, it also means that the chance to disinvest later synthetically will become dramatically more expensive, if longer tem bear-oriented products are even offered at all anymore at that point.

In any event, the 200-week moving average (1st chart on next page) again supported the VIX, as it now has for about 2 years. Meanwhile, the 200-day moving average (page 6) resisted the recent spike rally to 30.

Strategy

With markets rolling over, this is a typical basing pattern for this countertrend index, which proves ominous for global markets. This also means that premium purchasers must be fully invested. Yearend is a 2nd chance for those who missed the cross-chart lows; again, dominance of the "better" indices begins about 3 months BEFORE individual markets actually top. Close-only stop at 20 remains.



PRECIOUS METALS

The entire move up in gold this decade was corrected when the decline ended at the forecasted $700 level. Having identified another low then, at the end of the summer I warned that a pennant was forming under $1000, and that its breakout would take the metal up to the $1,050 – $1,150 range.

I continued that, “Wherever the rally ends, the subsequent pullback should not break below $1,000, or decline more than a $150 (paraphrase).”

Strategy

Let me make this one simple and clear, too: As from $700 per ounce, gold has started its wave-3 advance toward $3,500, in 2011. I look for a break above $2,000 in 2010, however slightly. At EACH step of the way, there are bears and bearish arguments.

However, there is a point when EVERYONE makes money. It’s called the wave-3 **“point of recognition”** when the fundamentals are universally accepted, which logically coincides with the gap we often see in the middle of a wave-3 explosion. Short term, based on the above, support is now around $1,080.


GOLDS 1161.4 -46.2 UBZK 1160.9/1161.9 UBZK
ComdtyTAS
At 16:22 Op 1207.5 Hi 1212.5 Lo 1148.9 Prev 1207.6
GOLDS COMDTY
Hide
TAS - Stochastic
Page 1/42
Range 12/10/99 - 12/04/09 Upper Bar Chart Mov. Avgs 200 Currency USD
Period Weekly Lower None Mov. Avg Events
%K/%D %DS/%DSS %K 14 %D 9 %DS 5 %DSS 3
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1000
789.07
600
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2000 2001 2002 2003 2004 2005 2006 2007 2008 2009
Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2009 Bloomberg Finance L.P.
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GOLDS 1167.8 -39.8 ANON 1167.43/1168.18 ANON
ComdtyTAS
At 13:51 Op 1207.5 Hi 1212.5 Lo 1167.1 Prev 1207.6
GOLDS COMDTY
Hide
TAS - Stochastic
Page 1/19
Range 12/04/08 - 12/04/09 Upper Bar Chart Mov. Avgs 200 Currency USD
Period Daily Lower None Mov. Avg Events
%K/%D %DS/%DSS %K 14 %D 9 %DS 5 %DSS 3
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1100
1000
976.39
900
800
100
85.56
40.60
0
Dec Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov
2008 2009
Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2009 Bloomberg Finance L.P.
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10-year weekly and 2-year daily silver charts follow on this page.

A 1-year XAU (Philly Gold & Silver index) chart follows here. 10-year and 2-year charts bear out the striking similarity between silver and the XAU. Only, in the case of the XAU, the leverage is greater, without being encumbered by forward carry (as is the case with silver), for those whose trading involves premium.

YEN, DOLLAR

The spike upward this week appears to be off a low, not seen anywhere else on the chart, but it did not get as far as 80, which was my idealized target. This spike suggests not waiting for it anymore, to any degree. (We already bailed, anyway.) And this is due to corroborative evidence in “other things Japanese.”

One of the Japanese domestic equity indices spiked around 9% in 3 days this week! Money must be converted to pay for stock purchases? So, the strong Yen favours the domestic companies, while the corresponding equities require little foreign cash to light the match, with prices so low in these stocks.

Domestic Japanese retail investors repatriating from foreign bond sales could also cause dramatic run-ups. Hedge funds could cause something truly dramatic.

From the November 8, 2009 letter:

"YEN: I reiterate that gold is the only true currency, while the Swiss Franc remains the only fiat *safe haven* currency. Still, it was undeniably correct to refer to the Yen as, 'The best paper currency for capital appreciation.'"

Immediately below is a 10-year weekly look at the Yen; it is followed by a 2-year daily graph on page 12.

Please scroll to page 12.


JPY ↓90.42 +2.16 BGN 90.41/90.43 BGN
CurncyTAS
At 14:16 Op 88.26 Hi 90.54 Lo 88.00 Close 88.26
Value 12/ 8/09
JPY BGN CURNCY
Hide
TAS - Stochastic
Page 1/37
Range 12/04/07 - 12/04/09 Upper Bar Chart Mov. Avgs 200 Currency JPY
Period Daily Lower None Mov. Avg Source BGN Events
%K/%D %DS/%DSS %K 14 %D 9 %DS 5 %DSS 3
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Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2009 Bloomberg Finance L.P.
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DXY ↓ 75.777 +.975 Y /
CurncyTAS
DELAY 16:14 Op 74.780 Hi 75.936 Lo 74.599 Prev 74.802
DXY CURNCY
Hide
TAS - Stochastic
Page 1/42
Range 12/10/99 - 12/04/09 Upper Bar Chart Mov. Avgs 200 Currency USD
Period Weekly Lower None Mov. Avg Events
%K/%D %DS/%DSS %K 14 %D 9 %DS 5 %DSS 3
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Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2009 Bloomberg Finance L.P.
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From the urgent November 20, 2009 interim report, entitled, "USD:"

"The bottom line is that it's really about other currencies taking a break from their bull markets."

"STRATEGY
On the basis of all of the above, the broad-stroke target range for an intermediate term rally is 85 – 95, in 2010."

From the same November 20, 209 interim report:

"ASSET ALLOCATION
"On the strength of the preceding, my asset allocation model is today altered to 50% gold (unchanged), with the Swiss Franc, Yen and USD now sharing the other 50% equally. (Previously, the DXY portion was evenly split, between the Swiss Franc and Yen.)"

I suspect that this will remain SKGS' asset allocation model through a good part of 2010.

CONCLUSION

In June and November, the conclusion read the same, and it is reiterated here as the introduction to and summary of what will have succeeded in 2010:

"The picture painted by this letter makes obvious where asset allocators and hedge players alike should have had their money as of the 4th quarter, while clearly indicating that one must reposition at this time, if one wishes to plant the seeds of maximal success for the period which follows this intervening countertrend rally phase."

"So, here it may be a well-placed segue to express that, to-date, as is all too often the case, those seeking to be more conservative have also enjoyed the greater leverage."

"First, there was the customary 50% collapse (New York). Then, I further called its bottom and forecast the global rally (*a la 1931),* which is presently underway.

"As history is being made, how many major and easily playable cycles are left?"

Sid Klein