The Sid Klein Comment

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IMMINENT GLOBAL EXPLOSIONS

December 7, 2008

JAPAN

The 10-year weekly and 2-year daily charts of the Nikkei follow on pages 2 and 3, respectively. As we can see from their respective stochastic, the 200-week and 200-day moving averages are 4000 – 6000 points above the market!

Other Japanese indices have not confirmed the new multi-year lows in this index which has greater weights in the exporters and banks than do the others. While I will not revisit the fundamentals which I explored at greater length in the November 9, 2008 report, I can add that such non-confirmation is in sync with what those commentaries and analyses expressed.

The public is a buyer after countless years out of the market and the "foreign idiot", who comprised the bulk of trade without Japanese participation during the bull phase, is now out of the market while the Japanese are buying, due to problems at home. The game, as I always wrote, is the currency. The greater proof is the underperformance of the large-caps and the fact that the Yen's strength is causing the Japanese investor to repatriate and buy the stocks they know: the domestic-driven shares.

Driven by US banks (see below), there is going to be an explosion in stocks and the distance from the moving averages discussed above implies that the Nikkei should erupt several thousand points in 2009. Whatever 2008 was, 2009 will have nothing in common, now that the hedge funds have utterly screwed themselves. They are going to chase like madmen, having had no foresight over this past year.

While SKC readers sidestepped the carnage, the vast majority of investors allowed themselves to be run over by their own greed and vanity and will, by those same demons, be chasing a rally they that will only believe once it is too late. And then SKC will again be ahead of curve – with bearish forewarnings.

Please scroll down.

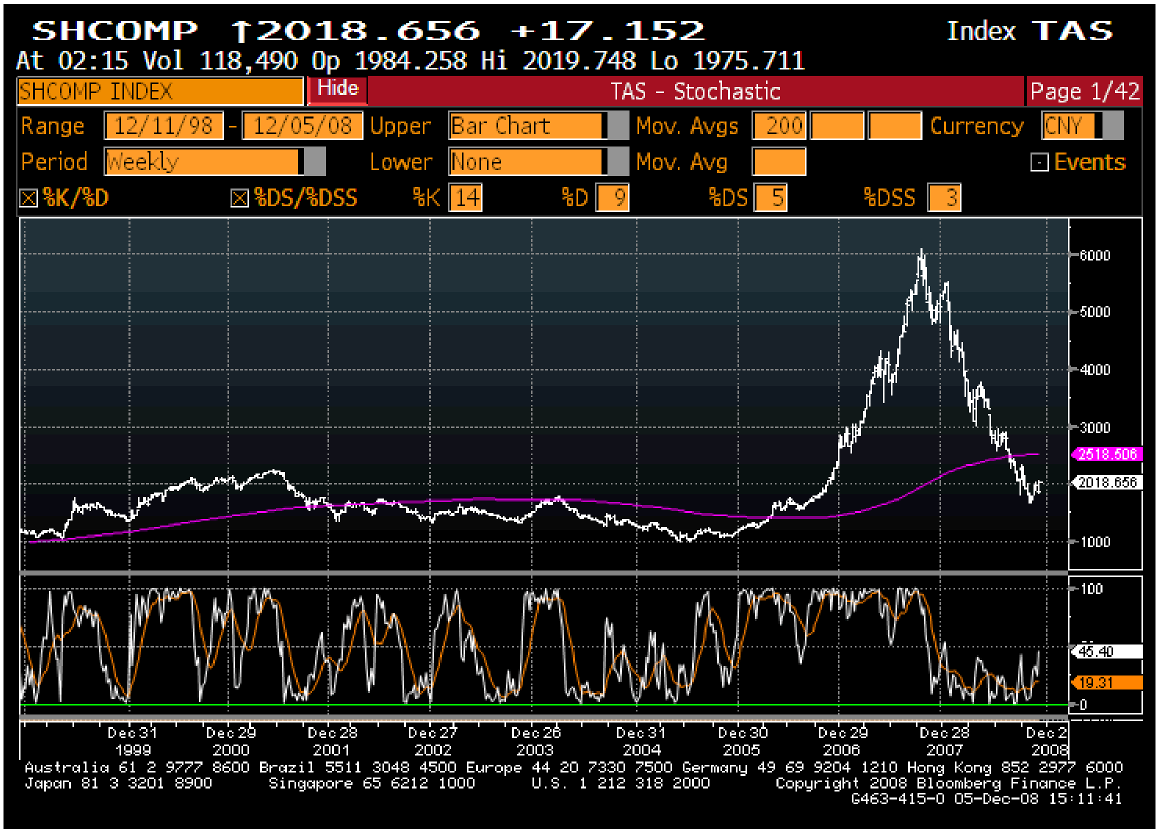
SHANGHAI

On September 7, 2008, SKC reported:
"This implies a monster rally into 2009, and starting not far from here, in terms of points."

And from the October 4, 2008 SKC letter:
"Last month's September 7, 2008 letter also contemplated a huge rally in Shanghai, with short term potential for another 10% decline to under 2000.

"The latter has occurred and China's risk is now clearly to the upside. Take note. Will I be as lucky in China as I was in Japan in the nineties?"

The 2-year daily chart, which follows the 10-year weekly graph on the next page, clearly shows the explosive potential for this highly favoured market, which I forecast would outperform the other world indices before these recent final debacles began. With the stimulus package announced as fodder for the bulls, this index will surely lead, as others skyrocket, each with their own stories, but always and ultimately, a liquidity story. 2009 is a reversion to liquidity.



My 2008 short of the year, is my 2009 darling.

NEW YORK

The Fed's reserves has jumped from $7 billion to $500 billion, with a promise to issue $2 trillion in bonds, including 30 year paper…at the lowest rate levels in 50 years. One theory is that since the Fed won't call back bank debt (suicidal); having rammed these bonds onto the market, the banks will lend like it's nobody's business to stimulate the economy and skyrocket the economy. Consistent with this, consider this piece from today's New York Times:

"…Obama promised Saturday to create the largest public works construction program since the inception of the interstate highway system a half century ago as he seeks to put together a plan to resuscitate the reeling economy."

The hedge funds will be caught and, again, screwed.

Just a theory because with oil having collapsed and exports to the US off the cliff, the Chinese who have been the great money recyclers (by buying US toilet paper) could always say, "The heck with it." But, then again, they also have their own stimulus package going and the Shanghai index to manipulate for their own accounts. Strange bedfellows and a weird world.
Besides, I just don't feel that it's time for anything that confrontational. It will become my then-ignored rhetoric at a pre-collapse peak. Later. 2010 will be hell and damnation.

Guesswork scenarios and market sci-fi market speculation with a basis in the real aside, what we know is that unemployment in the US has been rising for 11 months and has risen to 6.7%. So, rates are cheap, with the above part of the scenario where money pours into the economy. After the new US king is inaugurated, the customary 1st-year feel-good will rocket the market, as the debacle occurred when there was no one to blame, as so long-since forecast. The bandits have secured their loot and the anti-Christ wasn't even in his country lately while the economy was getting creamed. Not bad for a guy who never traveled out of the Empire until he was elected.

In all this, ask yourself: "Okay, if I got trounced during 2008, do I want to punish myself by not being long in 2009, and should I just wait until the cyclical rally is over before the next collapse (to go short), or do I want to make money now and then secure the future by getting geometric thereafter on the way down?"

Readers were long nothing in the US in 2008 and are secure now so, does one want to call it quits altogether today? That is an option, you know. After all, what is winning before they take the stage away for good all about anyway? Otherwise, act now!

This month gives voice to a lot of rhetorical and theoretical questions, so that the food for thought may offer fresh inspiration. We are entering yet another year of thrilling global hedge opportunities and, again, yearend marks the date for establishing those positions.

Thereafter, there is little to do except let the market print money for you...again. Hence the prodding to question oneself. Because alertness is needed…and I want to find new and creative ways for waking up the managers who hibernate when they need to be most attentive and ready to establish positions: Christmas – New Year's time.

Asset and fund managers tend to get wrapped up in business considerations to such a degree that they forget the main event that brought them to the arena: investment and its proper timing. Don't let this year be the same for you again.

Page 7 contains 10-year weekly and 2-year daily charts of the Dow. Please note the daily Dow chart in conjunction with the daily VIX chart with its related commentary.

The November 9 report suggested that the Dow may have bottomed.

<u>2009 SYNTHETIC (HEDGE) OUTPERFERMONCE</u>:

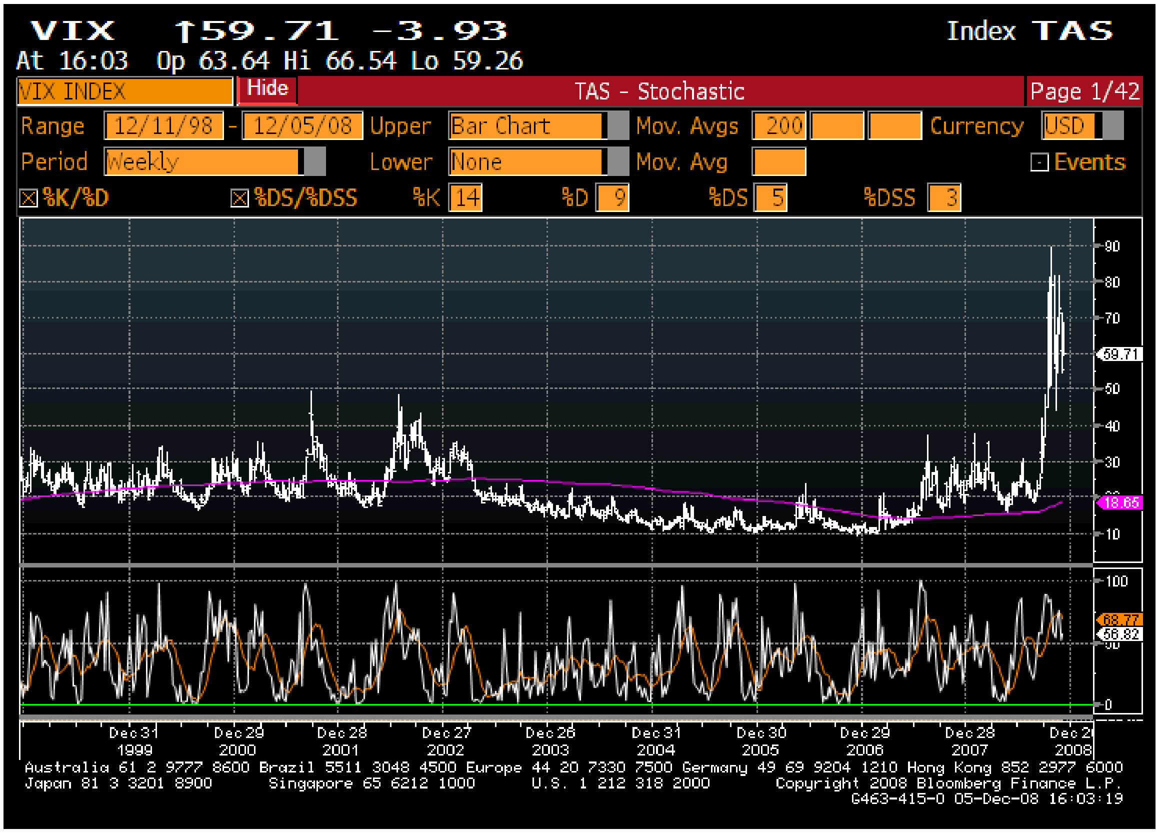
At the same time, this annual warning is both more and less specific than in the past: As the calendar turns, there will be swift 7% - 10% upward corrections from the deeply undervalued levels of specific hedge (outperformance) opportunities. The price changes in the related synthetic products will be greater by some multiple, obviously, regardless their long-dated nature.

<u>VIX</u>

The 10-year VIX chart immediately below illustrates the spike to 90 and how, in that context, our catching a short sale at 75 reflected superb vision, with a target in the 30's. The target will surely be realized.

Along with silver, I promised you the possibility of one of the easier trades and profits of this late 2008 – early 2009 period.

The 2-year daily VIX chart that follows it on page 9 shows us how the VIX made a lower high, even as the DOW made a lower low, a phenomenon I once explained as being a divergence that was a good sign that a reversal was at hand, according to my way of thinking and past observations.


VIX ↑59.71 -3.93
Index TAS
At 16:03 Op 63.64 Hi 66.54 Lo 59.26
VIX INDEX
Hide
TAS - Stochastic
Page 1/42
Range 12/11/98 - 12/05/08 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
59.71
18.65
68.77
56.82
Dec 31 1999
Dec 29 2000
Dec 28 2001
Dec 27 2002
Dec 26 2003
Dec 31 2004
Dec 30 2005
Dec 29 2006
Dec 28 2007
Dec 2 2008
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 2008 Bloomberg Finance L.P.
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VIX ↓ 59.72 -3.92 m
Index TAS
At 16:02 Op 63.64 Hi 66.54 Lo 59.26 Prev 63.64
VIX INDEX
Hide
TAS - Stochastic
Page 1/37
Range 12/05/06 - 12/05/08 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
59.72
32.50
18.99
Dec 29 2006
Mar 30
Jun 29
Sep 28
Dec 31 2007
Mar 31
Jun 30
Sep 30
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 2008 Bloomberg Finance L.P.
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GOLD & SILVER

While catching the countertrend rallies, I forecast that gold would break $700, and it eventually did. Before going long again, I wanted to see if the metal would perhaps close under that price, and I felt no rush to buy due to the ongoing and irrational inclusion of gold as part of the global asset sell-off.

However, I didn't like being un-invested altogether, hence the 200% silver position. Now, though, I look to perhaps get in at a higher low, which appears to be an opportunity that could be shaping up, or I certainly hope so.

Note the 200-week (3-year) moving average, which can be seen on the 10-year weekly gold chart on the next page. The proximity to it to which gold fell suggests the completion or near-completion of this cyclical correction in this ongoing and ever-accelerating secular bull market.

The weekly chart is followed by the 2-year daily gold chart, which illustrates how we might finally even get that close below $700. This would present a glorious cyclical opportunity to invest in this one true currency.

Sources who have always been faithful to me share that 70% of the world's silver production is coming off line, due the collapse in prices of those metals, the production of which generates said silver supply. Since much of the decline in silver stems from the funds who had to raise cash, the reversal of fund flows into financial assets will drive silver dramatically higher, aided by the collapse in supply.

Note the following 10-year weekly silver chart. Therein, all the potential for next year alone is quite evident.

Please scroll down.

We are 200% long silver at average prices of about $9.21.

See 2-year daily chart which follows on page 12. There, we see the value of our recent timing.

Please scroll down.

<u>US DOLLAR</u>

It has been a banner year for forecasting the Yen, wherein SKC has identified 20% moves on more than one occasion. This included a sizeable intervening 15% rally. And now, the Yen is ending the year on a high note. The 10-year weekly and 2-year daily Dollar/Yen charts follow on page 13.

Please scroll down.


JPY ↓92.96 +.72 BGN 92.94/92.97 BGN
CurncyTAS
At 16:08 Op 92.23 Hi 93.38 Lo 91.60 Close 92.23
Value 12/ 9/08
JPY BGN CURNCY
Hide
TAS - Stochastic
Page 1/42
Range 12/11/98 - 12/05/08 Upper Bar Chart Mov. Avgs 200 Currency JPY
Period Weekly Lower None Mov. Avg Source BGN Events
%K/%D %DS/%DSS %K 14 %D 9 %DS 5 %DSS 3
130
120
112.50
110
100
92.96
90
100
50
26.17
11.11
0
Dec 31 1999
Dec 29 2000
Dec 28 2001
Dec 27 2002
Dec 26 2003
Dec 31 2004
Dec 30 2005
Dec 29 2006
Dec 28 2007
Dec 2 2008
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 2008 Bloomberg Finance L.P.
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JPY ↓92.95 +.72 BGN 92.93/92.97 BGN
CurncyTAS
At 16:08 Op 92.23 Hi 93.38 Lo 91.60 Close 92.23
Value 12/ 9/08
JPY BGN CURNCY
Hide
TAS - Stochastic
Page 1/37
Range 12/05/06 - 12/05/08 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
125
120
115
110
105
103.60
100
95
92.95
90
100
50
23.11
0
Dec 29 2006
Mar 30
Jun 29
Sep 28
Dec 31 2007
Mar 31
Jun 30
Sep 30
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 2008 Bloomberg Finance L.P.
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I recommend that hedge managers read the following excerpt from the **September 7, 2008** report carefully. It discussed the "down and dirty trade" that indeed followed, as well as the intra-Asia play that is unfolding now:

"In any event, compelling research has indicated that the Korean market and currency are desperately dependent on the Fannie and Freddie bailouts that are unfolding, due to Korea's insanely overweight positions in their securities; I wish to do more of my own work on this.

"This much I can say for now: Firstly, the daily AND weekly moving averages converge just over 1000, leaving room for a down and dirty trade right now, by going long the Won.

"Without getting into it this month, we may be approaching a special Japan/Korea trade. It has been on my mind as a play for a while, and the circumstances now seem to be unfolding."

This spectacular rise in the Korean Won is coming to an end and this spells all manner of opportunity, directly and indirectly related to the currency.

The 10-year weekly and 2-year daily Dollar Index charts follow on page 15. There is a slight divergence in the weekly stochastic, having turned negative too.


DXY 87.121s +.677
CurncyTAS
At DELAYED Op 86.697 Hi 87.489 Lo 86.398
DXY CURNCY
Hide
TAS - Stochastic
Page 1/42
Range 12/11/98 - 12/05/08 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
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 2008 Bloomberg Finance L.P.
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DXY S 87.121 +.677
CurncyTAS
At 15:04 Op 86.697 Hi 87.489 Lo 86.398 Prev 86.444
DXY CURNCY
Hide
TAS - Stochastic
Page 1/37
Range 12/05/06 - 12/05/08 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
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 2008 Bloomberg Finance L.P.
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The rally in the Dollar index, which is above, is coming to an end very soon. The theme to always remember is that the Empire has a vested interest in trashing its currency, due to “trade agreements” and the effects of foreign property ownership on the rulers’ balance sheets.

Never fight the authorities. The currency is trash. Gold is king.

ASSET ALLOCATION

There is no change from the November 9, 2008 monthly report.

Sid Klein