

HAPPY DAYS - 1931 AWAITS: HEDGE MANAGERS: AWAKE!



February 23, 2009

SUMMARY

I was wrong about a pull in the wrong direction ahead of the US inauguration, since the reality is that "the Obama effect" was to hold markets up, before irrational ebullience would give way to reality. After all, in the capitalist world, the name of the new King should not matter, whereas reality does. Hence, "holding it up" was a matter of irrational ebullience, insofar as financial markets were concerned.

And the reality of this new secular cycle is disastrous, as it will have lasted until 2020 – 2025, insofar as the economy is concerned. Financial prices are another matter, however.

To refresh what I have covered so often in these pages: The order of demise and collapse is: financial, economic, political, respectively. We are in the phase of financial collapse. The economic catastrophe has not even yet begun in earnest.

Thereafter, the fundamentalists will seek to prove their beliefs to be true, in smoking some mushrooms (yes, I'm being Dylanesque).

The economy bottomed in 1935 - 1936, based on commodity prices, while the stock market bottomed in 1932; the economy only improved in the early 40's as World War Two got going and expanded.

The Dow Jones has now fallen 50% and is approaching this cycle's low. **Our own 1931 awaits.**

NIKKEI

From the January 15, 2009 interim report:

"The commentary has been the same as that for the Dow (see below). And as we see from CHART #1 on page 2, there has indeed been a very recent hit. This has provided a very small, though still much appreciated correction in the Japan-related cross-charts, which have accelerated since November."

Well-rested (not so shell-shocked as to have fallen brain dead) hedge fund managers realize that **a new bull cycle has already begun or recommenced** (as the case may be) **in several global equity index relationships**. The basic theme over these several years has been that this period in history represents and includes..."a massive shift of wealth and power from West to East."

A key example and symptom of same has been the depletion of the West's gold reserves, while the East has been the accumulator of it.

Several Eastern equity indices have been conspicuously absent from the list of new lows, while the Dow has been making a new one.

The following **1-year Nikkei chart** is but one example. The pursuant **5-year chart** on page 3 illustrates how far ahead the Nikkei's collapse has been of the Dow's, while also reflecting the upside potential of its outperformance versus the Dow.

This is the case for several Asian indices, as the USD crumbles. Make NO mistake about it: I am NOT indicating that the Nikkei is the correct index to use, nor am I making any comment as regards the appropriate index ratios, strategically speaking.



SHANGHAI

The following **1-year chart** of the Shanghai index illustrates a significant per cent move, since I identified the “below 2000” 4th-quarter extreme in the index. The pursuant **5-year chart** on the next page implies the extreme upside potential in this already commenced bull move in the inter-relationship of the Shanghai index versus several global indices. Remember, I have already written that 2008’s favourite SKGS short, is 2009’s favourite long.



DOW

The Nikkei led on the way down, and, since then, the Dow has been catching down, while Japanese indices have been widening their long since commenced outperformance.

The **5-year** Dow chart follows the **1-year** chart below, and the latter clearly reflects the largely realized 50% decline.

Note that like the VIX, the Nasdaq was has not confirmed the new Dow lows.



VIX

The following 1-year VIX chart clearly illustrates that this new Dow low has been unaccompanied by the VIX (on the upside), which discounted this move down.

Put premiums discount bottom prices, as hedgers reflect in those premiums the lowest prices at which they will distribute the stocks that they were hedging with the puts that were purchased for insurance.



GOLD

In the February 8th report, I felt that the precious metals had peaked in the short term, which is why I reduced the 200% long silver position to 100%. As for gold, I simply wrote that while the downside potential was to \$800, "Who cares?" This I did write because I saw and see this cycle taking gold to \$3000 - \$3500.

The extreme potential is due to the fact that I saw the cycle from 2002 as having been fully corrected, with gold's move from \$1000 to \$700. I took my cue from silver's correction from \$20 to \$8. Simply, silver was providing the clear technical story from which to base a technical analysis of gold. I was convinced at the bottom. Still am.

SILVER

We had a 200% long silver position from \$9.21 and reduced it to 100% after a 40% run-up. As forecast, this is printing money off of major cycle lows. (See 1-year chart on page 7.)



2009 HEDGE PLAYS

January 27 interim report excerpt:

"Japan, New York, precious metals, currencies and, by the way, long term treasuries (US, England) have all made their forecasted reversals of fortune against other indices or asset classes, as the case may be."

This report has clearly shown that major long/short investments (outperformance plays) have long since bottomed in the different asset classes and, now, even in the global equities.

Hedge fund managers: Hear the bugle call! Réveillez-vous!

Sid Klein

LEGAL NOTICE: This market letter is the work product and intellectual property of Mr. Sidney Klein. It arises out of his training and profession as an international expert on financial equities. It is a private correspondence from Mr. Klein to his subscribers. Any person who copies or otherwise disseminates this letter becomes subject to international criminal and/or civil prosecution under the Universal Copyright Convention and the Berne Convention for the Protection of Literary and Artistic Works. Nearly all countries in the world have signed both of these Conventions and have pledged to enforce them through their own legal systems. In addition, Interpol may be called upon to assist in the international enforcement of these Conventions through its processes of arrest and extradition. If you are the *recipient* of a copy of this market letter, whether through the internet or by facsimile, you should immediately report to Mr. Klein the name of the person or entity who sent it to you. Send your email to sidklein@sidklein.com.

DISCLAIMER: This market letter is intended to assist in the dissemination of information to private subscribers. The information contained herein represents Mr. Klein's best efforts in good faith to advance knowledge to his clientele, but there can be no implied guarantee as to its accuracy or completeness. The information is given as of the date appearing on this market letter, and Mr. Klein assumes no obligation to update the information or advise on further developments relating to the information provided herein. No solicitation to buy or sell securities is intended, and none should be

inferred. Investments are inherently risky, but investment risk itself is a function of individual preferences. Thus any opinions, recommendations, or judgments expressed in this market letter are of necessity abstract and general. They must be modified, accepted, or rejected by individual subscriber/investors whose risk averseness cannot be known to Mr. Klein.