

Debacle Resumes



February 4, 2008

JAPAN

Nikkei:

At the recent lows, amid panic regarding Japanese equities, having forecast a collapse to the Nikkei 14,000-15,000 zone, I wrote the following in the January 24, 2008 report:

"The index has broken 14,000 and last year's lows on a gap. 12,000 lay ahead. The low this week was indeed 12,572. When has the Nikkei NOT overshot? I called a top at 17,500, and it went 800 points higher. And it has always been this way.

"Of course, the history of the Nikkei is to overshoot and, in doing so, break a critical support level, while not achieving the next (12,000?). Traders are then stopped-out and the fears about the next support level do not materialize. Supporting that notion here are the values of and action in the domestic stocks to which I briefly refer immediately below."

Indeed, the Nikkei flushed out as you see immediately below, while domestic equities have routinely quickly rallied 25% - 35%, albeit not

uniformly. Looking for signs of THE low, I note such hard and fast rallies since such is the action that one sees when Japanese equities make or probe for their final lows.



Such a v-reversal would be historically consistent with a major cyclical low, as this 2008 first quarter smells a lot like the 2001 first quarter for many stocks, first quarter 2002 for still more, and early 2003 for the banks, exporters and others.

Whatever the case, the easy money is in Japanese out-performance versus the rest of the world. It's easy because it's an apparent secret (what else is new), and the premiums for playing that reflect this fact.

NEW YORK

Dow:

From the January 24, 2008 report:

"Anyway, the first stop forecast was for 11,200, en route to 8,800. We got to 11,500. Close enough. In any event, the Dow should pull back

after this 1000 point spike up, before rallying to still higher levels as I warned the panicked at the beginning of the week. Thereafter, hell.”

As you can see from the chart immediately below, the panicked had the Dow reverse 1000 points on them and then, as forecast, pull back, before a rally toward 13,000, also as forecast. The last aspect of the reprinted forecast above would be the ensuing “hell.”

So, yes, that hell may have begun or may recommence at absolutely any moment.



Simply note the following 1-year chart. The Dow has rallied into **neckline resistance and has approached the 200-day moving average**, which means that that the resumption of the debacle could occur at any time.

Quarter-end and April will have been the hell unfolding, and we’ll see just how much of the Dow 8,800 target is indeed realized sooner, rather than later.

Strategy:

Suppose you want to **cut your risk in half and double your leverage too**, and further suppose that you don’t mind profiting only little from a bigger collapse that occurs sooner, as you prefer to err on the side of caution, risk aversion and capital preservation, then an April – March

Dow put spread is appropriate. It's a matter of choosing the correct strike price...and the leverage is huge!



YEN & JAPANESE DOMESTIC EQUITIES

The Japanese raised rates prematurely, many there have argued, and changes are coming within the Bank of Japan.

The bottom line is that the Yen has reversed no matter what and has plainly resumed its secular bull market. Nothing can stop that, as the Fed's own rate desperation assures that whatever the BoJ does, the Fed will do more of it.

And remember: Yen rates fall from the first floor, not fourth. So, Japanese domestic stocks now enjoy the best of all worlds.

It used to be that Japanese rates trapped investors into the famous carry trade that would never unwind (remember that fairy tale?), which was bad for domestic equities. Now, however, the Yen is well on its way...and lower rates would simply mean goodies for Japanese economic indicators, as well as equities.

The sun is shining over Japan.

Good fortune to all,

Sid Klein

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