

Sid Klein Global Strategy

1001 BOUL. DE MAISONNEUVE O., BUREAU 950, MONTREAL, CANADA H3A 3C8

TEL: (514) 939-2221 FAX: (309) 417-0942

e-mail: sidklein@sidklein.com

www.sidklein.com

URGENCY... ANYONE? ANYONE?



January 1, 2009

As so often reported with respect to yearend, with this year no exception, money managers of all stripes finally relax, precisely when best prices are beckoning, whether for the short or long side, according to the year and asset class or market. They do so for reasons relating to "bookkeeping" or what is particular to their industry or their own company. Sometimes it's just about vacationing. Markets don't take vacation, however. The fact that humans behave in the manner (again) described here, spells opportunity, just as crises do. Simply, the market creates the opportunities from which to benefit.

Having said that, the identified and forecasted extremes in the various markets have indeed come to fruition, suggesting sizeable and mounting profits for investors who will have participated. This holds equally true for the hedge plays, the outperformance strategies which are expressed by the cross-charts; the latter are also lead indicators. I made the latter point a few times three months ago, when making the argument that everything was lining up to make higher lows for yearend, before blast-offs in the first half of 2009.

To substantiate the foregoing, we revisit the individual themes, as we pay good-bye to this wonderfully profitable year for SKGS. Its mandate to serve and

protect has been dutifully performed, no less well as its mandate to use periods of crises to generate windfall gains. There is a geometric difference in a manager's performance when he sidesteps a calamity to actually profit from it. **[Such was the offering of the December 2, 2007 report (linked here): [Windfall Gains in 2008: Esoteric Alternatives for Hedge Funds & High Net Worth Individuals](#)]**

The outcome is a sucking sound from other managers' assets under management to one's own. As we enter the New Year, I am no less committed to serving, protecting and profiting just as well, in 2009.

JAPAN

The price low in the Nikkei was identified in these pages several weeks ago, reiterating the view expressed in September that December would likely mark a higher low. As far as technical analysis is concerned, this view was based largely on the belief that the Nikkei had clearly bottomed versus the Dow (lead indicator), while, in terms of fund flows, the Japanese were/are buying their own market for the first time since this secular bear market began 18 years ago (see Nov. 9, 2008 report).

This latter point was/is driven by the fact that the Yen had reversed and has absolutely erupted to the upside, making domestic assets attractive, with Japanese investors now fed-up with losing money on foreign currency exchange.

Spinning off from this, and as further support for this market view, was my assertion that the Nikkei had bottomed versus the Dow; all views included the fact that – as often reported in these pages – other Japanese indices have been in an accelerating bull market versus the Dow since **over a year** (a wave 3 of 3 eruption, as I had described it, particularly when gauged in non-US Dollar terms)! Certain Japanese indices were even in such an eruption versus the Nikkei.

Today, the Nikkei is positioned for a multi-thousand point advance, much as an army aligned along the border awaits its orders. "Awaiting its orders" in this case equates to the New Year's 1st-quarter calendar change.

Warning:

Both the Nikkei and the Dow show overbought daily stochastic, coupled with coincident weekly stochastic that have room to decline. Be aware that the year's first two weeks may commence with a pull in the "wrong direction", much as was the case in 2000. Then, it was in a bull market, but the point is that I made the same forecast of initially pulling in the wrong direction (fake-out). The Dollar would be the early year fall guy.

Strategy:

Notwithstanding the preceding comments, the lofty daily stochastic reading suggests that further advance in the short term may be strained, even if there is no pullback. Of course, such a lofty level is also consistent with technical confirmation that the trend has indeed bottomed.

All Japanese indices are good but some are better than others. Also, for simple option plays, awaiting a pullback (even if from higher levels) may better serve the speculators, but, no matter what, premiums will be high. Hence, the greater value is found in the hedge (outperformance) bets.

Either way, from bottom to top, a multi-thousand point advance awaits this market early in the year.

Hedge Opportunities (Outperformance):

To reiterate an oft-shared analysis, the ideal hedge bets are those that have the best selections and combinations of indices, including ratios of one index or commodity (or combination of indices or commodities) versus the other (the denominator or index selected to be outperformed). In broad strokes, Japan and China are the big winners going forward. East up. West down.

One thing is for certain, however. Gold has bottomed and Japan versus the US has bottomed. The movements are decisive price-wise, and clear chart-wise. The ramifications are serious strategy-wise, and meaningful profit-wise.

SHANGHAI

The trend is still down in China, and that is just an observation. However, the bears have made their money, as the Shanghai fell over 66% to a level below 2000, which I deem(ed) to be support (1600 - 1800).

For those who know to do it, this is the bull play going forward, just as I had forecast this market to be the 2008 short of the year (see link on page 2).

NEW YORK

Technical/Money Flow:

What will have been a multi-thousand point move to the upside will get going in earnest after inauguration, as the Americans ultimately plan to *de facto* default on its debt, with the "the stroke of a presidential pen." Old-fashioned Weimar printing and hyper-inflation.

While I forecast all this years ago, and with repetition over this past year, it is now a matter that is practically accepted as a foregone conclusion among the informed investment/financial community (also see the YEN section below).

The US is unconcerned with default, as it seeks to create a single currency block which is governed by Washington, with that centre setting the economic policies.

The significance for foreign investors is that it is important to understand the endgame (see GOLD below). For example, it is a key point to appreciate that it is Canada – not Iraq – which has the most oil. Bush referred to Canadian oil as domestic supply, as they now can to an extent with respect to Canadian water.

By achieving control of its required resources, the maintenance of the US Dollar as the international currency is less important to the US government. Investors should understand this.

Summary:

As regards the Dow, like last year, however, this advance will likely be more a matter of time than price. The sideways action will run concurrently, then, with an ever-increasing outperformance of the Dow by other key indices. The conclusion here is the same as that for the Nikkei:

Either way, from bottom to top, a multi-thousand point advance awaits this market early in the year. It should fail to traverse 11,000, however, for the reason discussed so often in the past (at the peak, when explaining why the break of 11,000 will engender panic). Most money got in at that level, so greed will wait to break even, before the door slams shut, forever.

VIX

From the October 18, 2008 report:

“SHORT THE VIX AT 75 AND HOLD FOR EASY PROFITS THIS QUARTER, RIDING IT DOWN INTO THE THIRTIES! Gentlemen, stick in your offers.”

Please also see SILVER section below.

Strategy:

I advised covering shorts on a close in the 30's, unless, notwithstanding the volatility, time allows for a more fine-tuned interim update. Yesterday, the VIX closed right at **40**, after hitting an intra-day low of **37.96**. Therefore, whether one took huge gains to close year, is a coin toss.

Two days ago, I wrote: "On an analysis of the various stochastic and their respective moving averages, I conclude that the VIX should get to 30, but let's see if there's a nice trading swing in here somewhere from which to benefit."

Either way, we can say that the VIX traders will have benefited from a move of over 50% and, given that this is a short sale, the return is indeed twice that (if a purchase is made at 37 with an ensuing sale at 75, the return is 100%, hence the margin requirements for a short sale come to reflect that fact).

GOLD

It is clear that gold has seen its lows. I correctly forecasted the lower high of the cycle's peak, the subsequent gyrations including its countertrend peak at \$900, and the collapse to under \$700. However, I had wished to see if a closing price could ensue to below \$700 (as opposed to an intra-day violation), before returning long term asset allocators to 100% long.

It did not matter, due to our asset allocation model that had substituted that portion of the (hard) currency allocation, with an even split between the Yen and Swiss Franc. Note the following:

From the October 4, 2008 report:

"Last month's regularly scheduled report (September 7) advised scaling out of 50% points of one's position on a break above \$900 at any time. By this, I explained, a fully invested long term investor could go to 50% long, while traders so inclined could remove their 50% position, thereby scaling back to zero.

"I argued and maintain that gold may have a final leg down to the \$650 - \$700 area. Following the daily 2-year gold chart below is a 31-day graph of the metal, and it clearly illustrates the break above \$900, along with its violent subsequent reversal."

Gold delivery out of short stock supplies is the cause for (historical) gold contract backwardation (temporary and minor, but just the beginning of same) and becomes a bullish commodity story, much as the one that will have existed for the grains. They will have been price bull markets, not because of demand as much as panicked shortages (hoarding/greedy accumulation).

The COMEX will soon be bankrupt, while other, more reputable and new foreign markets take their place (i.e. – India).



The delivery out of short supplies on the exchanges into private hands has become a widespread story and the sort of story that understandably and correctly precedes **wave-3 up!** Please understand this.

Strategy:

We are looking to establish a 100% long position as the lows were seen, when the break of \$700 occurred as forecast. The metal could only do so on an intra-day basis, as opposed to a closing basis. Rather than lament missing a perfect entry for being fully long again, we take solace in:

- Our 200% silver position, which was strategically designed to buffer not being 100% long gold, and
- The fact that gold will now enjoy a virtually unabated (big picture) wave-3 advance to the \$3000-\$3500 area, which was initially discussed a year ago*; the bearish divergence seen above on the 2-year daily gold chart, should now yield to a short term pullback.

* - See gold conclusion below the weekly silver chart on page 8.

SILVER

From the October 25, 2008 report:

"GO 100% LONG SILVER.

"With silver having closed a shade less than 60 cents off of the lows Friday, investors may be able to benefit from some minor backing and filling at the beginning of the week to go long.

"As with the VIX, fear not.

"There may be huge profits twice more."



The 2-year daily silver chart above is followed by the 10-year weekly graph on the next page.

From the November 25, 2008 report:

"...I am now moving from 100% to 200% long silver, basis tomorrow's average price. The chart above illustrates the perfection with which the initial (100%) position was established*. Coupled with a short VIX position from 75, we are well positioned for a rebound in asset prices."

* Approximate average price for 200% silver position: \$9.21."



The gold section did not include a 10-year weekly chart, since it reflects a completed 5-wave advance that could make one squeamish about the idea of being fully long, amid pressure on financial asset prices. However, the 10-year silver chart immediately above tells the story more truthfully.

From 2002 through early last year, silver put in a clear 5-wave pattern. It is clear even to a rookie. Just as clear is the fact that the violent correction from \$20 this year corrected the move from 2002 in one relatively brief spike. The upshot for **gold** is as follows:

The correction from \$1000 to \$700 does not seem to be complete, when looking at it as coming from \$250. However, if we consider that this is a major secular bull market, replete with *de facto* debt repudiation, it is reasonable to assign the same wave count to gold as we do to silver. What is the conclusion then for gold? It would be normal for wave-3 to advance to ***\$3000 - \$3500 in this next cycle**, since wave price relationships follow certain mathematical relationships (which are studied in various Elliott Wave texts). I am applying an aggressive relationship (figure), due to my assessment of the underlying fundamentals (as well as my years-of-experience-based intuition).

Strategy:

Stay 200% long silver. This is going to print money. Just sit back and enjoy it.

US DOLLAR

Never fight the authorities. The US doesn't want its debt to exist, so neither do they care about their currency. Also by design, it suits US foreign currency-denominated valuations of foreign property, assumed via trade agreements.

YEN

The following is a 2-year daily Yen chart. It is followed by the 10-year weekly graph on page 10.

Having turned bullish early on the Yen at 117, maintaining the short posture seemed to be an eternal pain, as "the carry trade" was the mantra that was repeated with a voodoo-driven fear that "they" would never allow the Yen to reverse.

I argued that it would eventually crash to 80 and, for my efforts, I was told that that was nuts. Since then, SKGS identified a few 15% and 20% swings each way...and 80 seems to be tomorrow's business.



The question was, "How could this (carry trade and Yen) ever reverse?" Now, the question is, "When was the Yen last this high?"

