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LOOK OUT BELOW

January 10, 2010

JAPAN

The Nikkei continues to follow the Dow on a lag. This partly relates to the effects of the relationship to the currencies, which becomes more evident when viewing the Nikkei in both Yen, as well as Dollar terms (next month's report will look at those indicators.)

At the perfect low a year ago, I forecast 11,000 as a countertrend rally target for the Nikkei and the 10-year weekly chart on the next page (2^{nd} graph) shows that we are now only 200 points away.

The latter chart also reflects a 200-week moving average with which the Nikkei is converging. Due to the distance between the two, the peak should be followed by volatile trading between 10,000 and 11,000, before joining the rest of the world in an out-and-out collapse, en route to a triple bottom around 7,000.

Weekly stochastics do not diverge at countertrend rally peaks; they simply peak at highs. However, daily stochastics do diverge in such a situation, and the 2-year daily chart on page 2 (1st chart) illustrates a stochastic that is divergent and weakening.


NKY ↑10798.32 +116.66 Index TAS
At 01:29 Op 10743.30 Hi 10816.45 Lo 10677.56
NKY INDEX
Hide
TAS - Stochastic
Page 1/37
Range 01/08/08 - 01/08/10 Upper Bar Chart Mov. Avgs 200 Currency JPY
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 2010 Bloomberg Finance L.P.
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NKY ↑10798.32 +116.66 Index TAS
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NKY INDEX
Hide
TAS - Stochastic
Page 1/42
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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 2010 Bloomberg Finance L.P.
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If the Nikkei wanted to squeeze the hedge funds a bit (for all the, "They-are-the-international-problem-and-have-it-much-worse" arguments), its upside would be a perfect right shoulder at 12,000, where the overhead neckline resistance would await, to smash it down. I do not believe that that will happen, but the TPXSM (small cap index) will continue to greatly outperform the Nikkei, no matter what.

Strategy

If you have not already done so, exit the Nikkei and buy the Topix small caps. There are exotic and leveraged ways of doing so, as well as simple means by which to invest, using listed closed-end funds, or mutual funds with exceptional track records through both good and bad times.

CHINA

Due to political "difficulties", the true Asian problem by far is China. At the lows ("anything below 2,000"), I forecast a countertrend rally to the 3,000 – 4,000 area.

Page 4 illustrates the 2-year daily and 10-year weekly charts, respectively. We see that the Shanghai index bottomed ahead of the other world indices in the 4th quarter of 2008 and began its countertrend (a-b-c) rally then.

Please note that 2009's rally is all a wave-c, and its form is similar to the other key Asian indices. As regards the conclusion of wave-c, a dénouement that presents multiple money-making opportunities, last month's conclusion wrote…

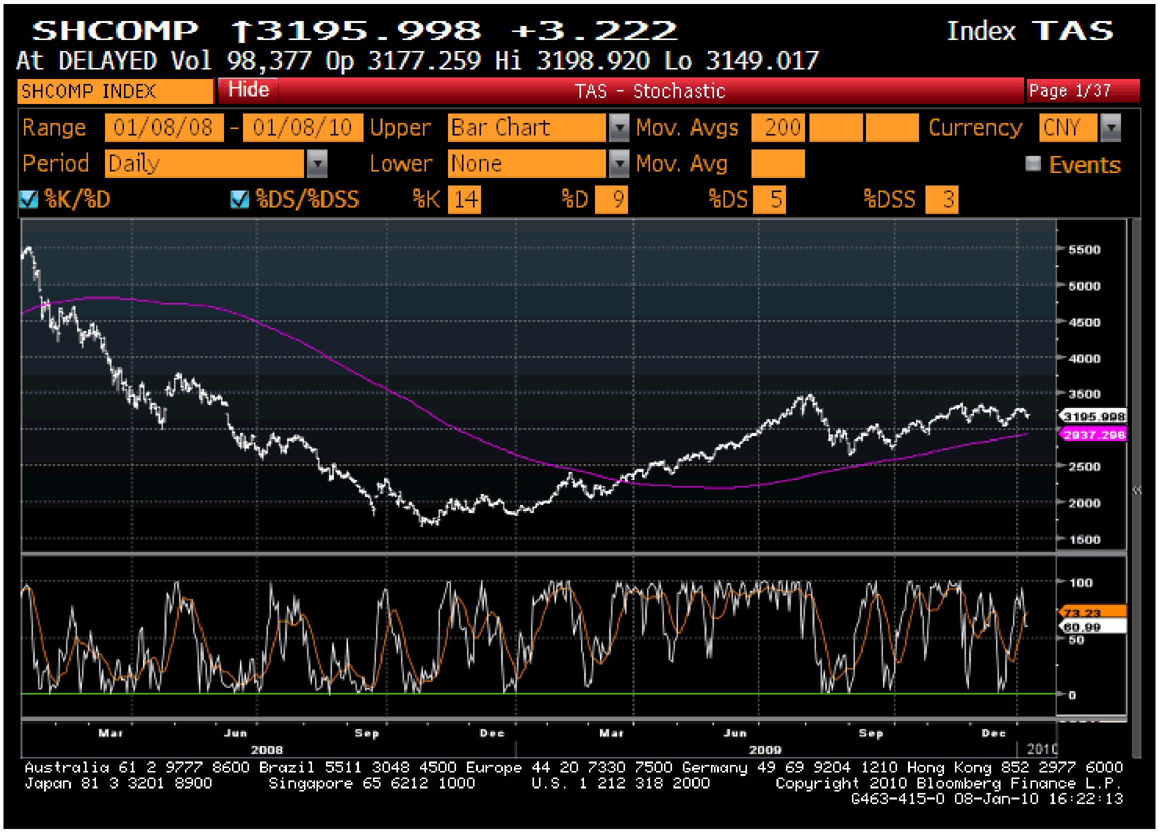
Strategy

"….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?"

Indeed, this badly weakening index is just points from 3,500 and the end of wave c of c. Yes, it is THAT close to its demise.

To exemplify the effects on the other bourses and the similarities of their intermediate term (6 month) patterns, today we look at an additional market on page 5: Korea.

Again, the graphs on page 5 are 2-year daily and 10-year weekly charts, respectively.


SHCOMP ↑3195.998 +3.222
Index TAS
At DELAYED Vol 98,377 Op 3177.259 Hi 3198.920 Lo 3149.017
SHCOMP INDEX
Hide
TAS - Stochastic
Page 1/37
Range 01/08/08 - 01/08/10
Upper Bar Chart
Mov. Avgs 200
Currency CNY
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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
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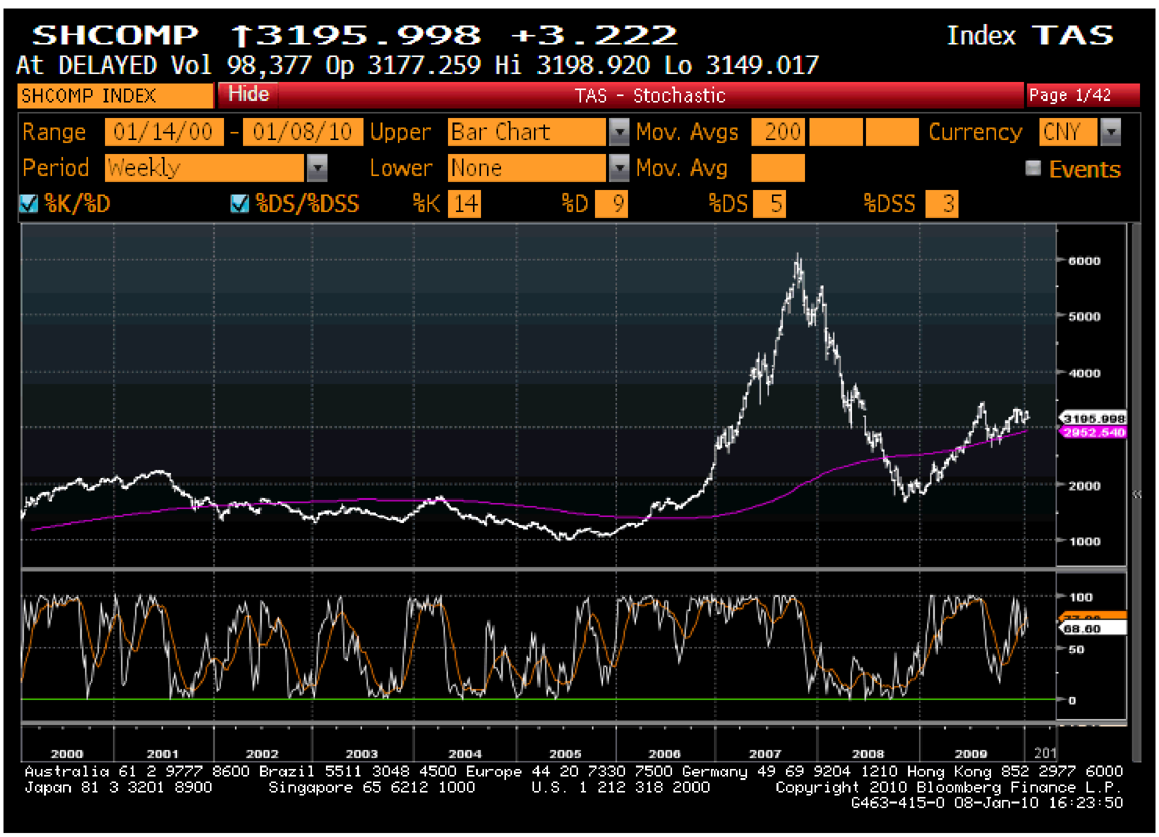
SHCOMP ↑3195.998 +3.222
Index TAS
At DELAYED Vol 98,377 Op 3177.259 Hi 3198.920 Lo 3149.017
SHCOMP INDEX
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TAS - Stochastic
Page 1/42
Range 01/14/00 - 01/08/10
Upper Bar Chart
Mov. Avgs 200
Currency CNY
Period Weekly
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%K 14
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6000
5000
4000
3195.998
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2000
1000
100
88.60
50
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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 2010 Bloomberg Finance L.P.
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KOSPI


KOSPI ↑1695.26 +11.81
Index TAS
At DELAYED Vol 379,138 Op 1694.06 Hi 1695.26 Lo 1668.84
KOSPI INDEX
Hide
TAS - Stochastic
Page 1/54
Range 01/08/08 - 01/08/10 Upper Bar Chart Mov. Avgs 200 Currency KRW
Period Daily Lower None Mov. Avg Events
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1800
1695.26
1600
1519.01
1400
1200
1000
100
83.33
50
0
Mar Jun Sep Dec Mar Jun Sep Dec
2008 2009 2010
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 2010 Bloomberg Finance L.P.
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KOSPI ↑1695.26 +11.81
Index TAS
At DELAYED Vol 379,138 Op 1694.06 Hi 1695.26 Lo 1668.84
KOSPI INDEX
Hide
TAS - Stochastic
Page 1/42
Range 01/09/00 - 01/03/10 Upper Bar Chart Mov. Avgs 200 Currency KRW
Period Weekly Lower None Mov. Avg Events
%K/%D %DS/%DSS %K 14 %D 9 %DS 5 %DSS 3
2200
2000
1800
1682.77
1600
1515.95
1400
1200
1000
800
600
400
100
88.38
49.18
0
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 2010 Bloomberg Finance L.P.
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Of the markets covered here, the Korean bourse (Kospi) has come closest to retracing its 2008 collapse. Into 2011, it has an appointment with 800 (or worse). An inferior play on Japan and dependent on Chinese fortunes, it has nowhere to go but down.

For those lucky enough to be able to profit from this easy bet: go for it.

NEW YORK

Last month, I asked, **"Are the last trickles of the countertrend "1931" Dow rally completing right now?"** The answer is, "Yes."

The 2-year daily chart on the next page includes a 200-day moving average that is about 1,500 points away, while the 200-week moving average is just about being kissed. Considering as well the sharp countertrend a-b-c ascent, a violent smash is likely, leading global indices lower.

Obama is the latest obedient figurehead to read his lines. Apart from having delivered the budget designed by the rulers in the big leather chairs, he now speaks just as *knowledgeably* about the ever-mythological Al-Qaeda.

Being somewhat more believable than the 3rd anti-Christ, this *good guy* will deliver the words that will assign the blame for the collapse, exactly where the governors of Wall Street would have it assigned: crazy Moslems.

Perfect. Who will doubt someone named Hussein? Yes, I have bitterness, when I see the murderers assign blame to the victims. It's easy when the rulers are those who need to be believed, because they are those in whom the victims (everyone else) MUST believe.

Go back to your studies of child psychology and the behavior of kidnap victims.

What is my point? Be ready for the "terrorist" event that the rhetoric has prepared everyone for. Obama has been and will remain a duped and obedient servant. Be ready to not be fooled as regards the true causes for any smash, as the causes for this unfolding Depression have nothing to do with the ever-victimized Arabs, the ideal scapegoats.

Strategy

Last month's strategy section remains unchanged: **"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."**


INDU ↑10618.19 +11.33
Index TAS
At 16:01 Op 10606.40 Hi 10619.40 Lo 10554.33
INDU INDEX
Hide
TAS - Stochastic
Page 1/37
Range 01/08/08 - 01/08/10
Upper Bar Chart
Mov. Avgs 200
Currency USD
Period Daily
Lower None
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%K/%D
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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 2010 Bloomberg Finance L.P.
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INDU ↑10618.19 +11.33
Index TAS
At 16:01 Op 10606.40 Hi 10619.40 Lo 10554.33
INDU INDEX
Hide
TAS - Stochastic
Page 1/42
Range 01/14/00 - 01/08/10
Upper Bar Chart
Mov. Avgs 200
Currency USD
Period Weekly
Lower None
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%DS/%DSS
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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 2010 Bloomberg Finance L.P.
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VIX

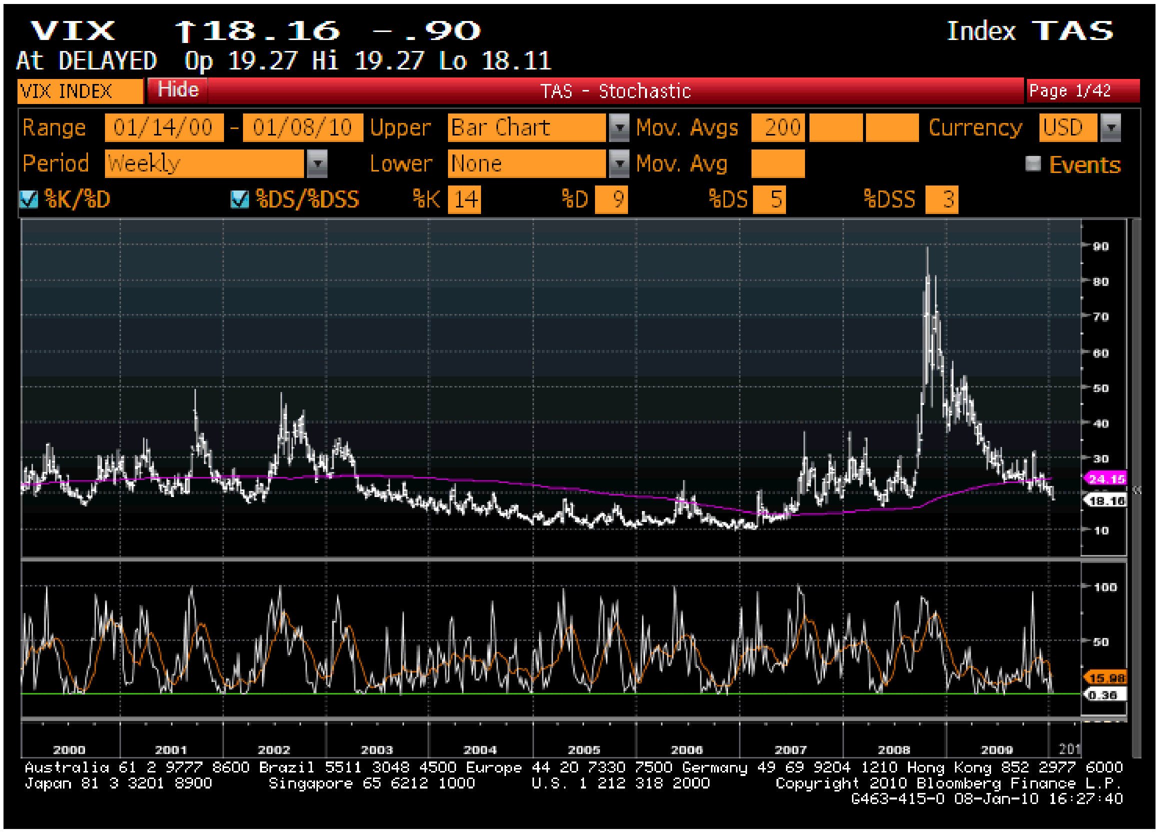
Whereas I had once discussed a close-only stop below 18, I reverted to a close-only stop below 20 in last month's report. I did so to protect the massive gains from around 85 down to "below 40." (Our recent long position was entered in the low 20's, under 24.)

The 2-year daily chart on this page, and the 10-year weekly chart on page 9 illustrate the massive correction, as a near perfect countertrend mirror of the equity markets (the S&P, specifically) countertrend rally, since the 2008 trashing.

More calls are being bought than puts, as memories have faded of disasters past. This won't last long. Count on it.   Bet on it.

Strategy

Revert to a 100% long position at Monday's open, with a close-only stop below 15.75.



PRECIOUS METALS (gold, XAU, silver)

From last month's report:

"Short term, based on the above, support is now around $1,080."

Gold pulled back to $1,079.50, intra-day.

Strategy

From last month's report:

"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."

To reiterate, the GDX is a listed and optionable closed-end fund which mirrors the XAU (Philly Gold and Silver Index).

As a passive long term investment, this is the route to take, in seeking countertrend investments that actually benefit from the financial turmoil that will continue for years to come.

An overlay chart of the XAU and gold reflects the historical outperformance of the equities versus the metal and the opportunity presently at hand, since gold is presently outperforming (this chart too will be included next month).

When investors seek safe haven equities, they will turn to these stocks, even as other equities are dumped. I have already written of the 1931 experience.

The February report will also include an overlay of the GDX and XAU, so as to illustrate the near perfect correlation between them, for would-be investors in the gold and silver equity indices.

The 2-year daily and 10-year weekly gold charts follow here, respectively (p. 10 & 11).

Even without the overlay charts, the relationship and temporary underperformance of the XAU versus gold is evident, as is the fact that the XAU charts emulate those of silver very closely.

The 2-year daily and 10-year weekly XAU charts follow those of gold on pages 11 & 12.


GOLDS 1137.03 +5.42 ZKBU 1136.75/1137.25 Comdty TAS
At 16:27 Op 1131.60 Hi 1139.43 Lo 1119.85
GOLDS COMDTY
Hide
TAS - Stochastic
Page 1/42
Range 01/14/00 - 01/08/10 Upper Bar Chart Mov. Avgs 200 Currency USD
Period Weekly Lower None Mov. Avg Events
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400
200
100
60.32
50
0
2000 2001 2002 2003 2004 2005 2006 2007 2008 2009
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Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2010 Bloomberg Finance L.P.
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XAU 181.74 +2.53 Index TAS
At 16:29 Op 179.36 Hi 181.74 Lo 177.64 Prev 179.21
XAU INDEX
Hide
TAS - Stochastic
Page 1/37
Range 01/08/08 - 01/08/10 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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181.74
154.40
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80
60
95.33
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Mar Jun Sep Dec Mar Jun Sep Dec
2008 2009 2010
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 2010 Bloomberg Finance L.P.
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On examining the 2-year daily and 10-year weekly silver charts that follow on page 13, bearing in mind that the XAU is comprised of silver as well as gold stocks, it seems consistent to believe that that the XAU will soon make an all-time high, while silver traverses its highs just under $22.

Please scroll down to page 13.


SILV 18.4700 +.2350 UBZK 18.4400/18.5000 Comdty TAS
At 16:28 Op 18.2250 Hi 18.5238 Lo 18.0400
SILV COMDTY Hide TAS - Stochastic Page 1/37
Range 01/08/08 - 01/08/10 Upper Bar Chart Mov. Avgs 200 Currency USD
Period Daily Lower None Mov. Avg Events
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Mar Jun Sep Dec Mar Jun Sep Dec
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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 2010 Bloomberg Finance L.P.
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SILV 18.4800 +.2450 UBZK 18.4500/18.5100 Comdty TAS
At 16:30 Op 18.2250 Hi 18.5238 Lo 18.0400
SILV COMDTY Hide TAS - Stochastic Page 1/42
Range 01/14/00 - 01/08/10 Upper Bar Chart Mov. Avgs 200 Currency USD
Period Weekly Lower None Mov. Avg Events
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18.4800
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0
2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 201
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 2010 Bloomberg Finance L.P.
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YEN, DOLLAR

In the JAPAN section above, I wrote of the small caps, which I believe to be the best bet in a disastrous global bear market, apart from the precious metals and their related equities.

From last month's report:

"....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."

These comments are reprinted on this page, since the strong and bull market-driven Yen is consistent with a new bull market in the TPXSM, which completed its flush-out at the end on November.

The following reprinted comment relates more to asset allocation, as investment in the Japanese small caps is a consideration of same, where equities are involved.

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.'"

Page 15 includes 2-year daily and 10-year weekly charts of the Yen.

Please note that Yen has already reached toward 95, from which level the Dollar/Yen did pull back, as that level was the first forecasted target; I looked for a bull move to the 95 – 102 area. The 95 area is where the 200-day moving average repelled the Dollar/Yen advance.

It appears that the Yen has already completed wave-a, even if an a-b-c countertrend rally in the Dollar/Yen chart is underway. Therefore, Japanese small cap investors need not be discouraged, since any Yen correction is precisely that: action within a bull market

US Dollar commentary continues on page 17.


DXY ↓ 77.456 -.457 Y /
CurncyTAS
DELAY 16:22 Op 78.048 Hi 78.187 Lo 77.352 Prev 77.913
DXY CURNCY
Hide
TAS - Stochastic
Page 1/37
Range 01/08/08 - 01/08/10 Upper Bar Chart Mov. Avgs 200 Currency USD
Period Daily Lower None Mov. Avg Events
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85
80
78.886
77.456
75
70
100
62.70
50
26.88
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Mar Jun Sep Dec Mar Jun Sep Dec
2008 2009 2010
Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
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DXY ↓ 77.456 -.457 Y /
CurncyTAS
DELAY 16:27 Op 78.048 Hi 78.187 Lo 77.352 Prev 77.913
DXY CURNCY
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TAS - Stochastic
Page 1/42
Range 01/14/00 - 01/08/10 Upper Bar Chart Mov. Avgs 200 Currency USD
Period Weekly Lower None Mov. Avg Events
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Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2010 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."

On page 16, 2-year daily and 10-year weekly US Dollar Index charts illustrate how BOTH the 200-day and 200-week moving averages are repelling the move, which very quickly ran-in bears (shorts) from a deeply oversold Dollar position. We'll now see what happens to all of the new found Dollar bullishness.

Admittedly, the fiat currency situation is where I enjoy the least confidence, hence my reliance upon my asset allocation model, in which I could not possibly be more confident.

This decade, no one of whom I am aware has enjoyed more successful currency allocation models, which have at different times included gold, silver, the Euro, Swiss Franc and US Dollar.

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

The fun has begun. Believe it....before sweating that 2010 will bring with it old nightmares. Stay the course.

Sid Klein

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.

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