

# Catch the Spear



January 11, 2009

## **Interim update:**

My most recent reports stated that the markets were preparing to accelerate in their new 2009 bull trends, but that they could pull in the wrong directions first at the beginning of the year, ahead of and into the inauguration date. I likened this to 2000, when I forecast that there would be a final rally to celebrate that Y2K wouldn't actually happen, before I identified the all-time Dow peak on January 13, 2000, a day before the top. The phenomenon is the same today, except in the opposite direction. Otherwise, the similarities are great. The markets may spike lower for a final time but, if they do, be ready to catch the spear.

However it is too late to still be short, and too late to not be positioned at all with the new trend. There must be exposure. To that end, I felt it would serve readers well to provide an interim update.

## **NIKKEI:**

The 1-year chart on page 2 allows for a higher low in the Nikkei, should the Dow indeed make a new low (unlikely), or make a higher low of its own. Either way, the Nikkei's outperformance is well underway, though it is itself being badly beaten by other Japanese indices, which outperformance of most everything in the world has been well underway since a year, and in an accelerated wave-3 fashion, at that (particularly in Yen terms).



**DOW:**

A misdirection decline is most likely here, supported by the high drama of whether or not the “all-too-obviously-will-be-passed-stimulus-package” story governing the headlines. Once you’re my age, this is old hat.

They have to show that they love their new “symbol of hope” (read: “We’re going to play with the world’s money and support our stocks and other assets”), and will therefore deny him nothing, as if it’s “his” plan to begin with.

Simply, ignore the news.

Scroll to page 3 for 1-year Dow chart.



**VIX:**

The VIX closed under 40 and we are therefore out of our position, with the all but promised windfall gains, as we were short from 75. A true "gimme." It is possible that a spike lower in the market, albeit to a higher low, could provide us with another shorting opportunity, as theorized in the yearend report.



## **SILVER (& GOLD):**

I looked for a pullback in gold so as to re-assume a full 100% long position, and the metal has since declined from under \$900 to just over \$850. I will wait before pulling the trigger, though we can report a second windfall gain already unfolding now.

Simply, silver is taking the lead and outperforming gold, rather predictably. There have been several outperformance stories since several months lining up as “knee high pitches over the plate”...and it has been easy, with the metals among the great stories that one could see from a mile away.

In the middle of the 4th quarter, when we shorted the VIX at 75 (with a target to “below 40”), I made the “unofficial promise” (always mindful of the regulators’ reasonable demands) that silver would be the equally easy windfall gain. Well, we have a 200% long position, with silver up about 21%...and this thing hasn’t even begun to get going.

The 1-year silver chart immediately below includes a 200-day moving average; the 50-day moving average (not shown) is in a clear uptrend (bowling pattern), supporting the short term view that it has bottomed, if one still has any doubts.



## **CONCLUSION**

At the beginning of the 4<sup>th</sup> quarter, I warned readers that the coming lows everywhere should be followed by higher lows to end the year, and that since cross-charts tend to be lead indicators, such hedge relationships would best be

invested in right then and there, as opposed to being handcuffed by the fear that is engendered by the final declines.

Yes indeed, the hedge relationships have long since bottomed and have been up-trending nicely off of 3-month old lows, or accelerating dramatically, if the hedge relationship (cross-charts) in question bottomed a year ago, as opposed to this past quarter.

So, if you're just playing straight long positions, the message is simple:

Happy spear-catching.

Sid Klein

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